Zhengzhou Gas Company Limited*

Stock Code: 3928

Annual Report 2009

* for identification purpose only

Contents

Corporate Information

(As at 30 March 2010)

DIRECTORS

Executive Directors

Mr. Yan Guoqi（閆國起）, *(Chairman)*
Mr. Li Jinliu（李金陸）
Mr. Li Hongwei（李紅衛）

Non-executive Directors

Mr. Song Jinhui（宋金會）
Mr. Zhang Wushan (張武山）
Mr. Ding Ping（丁平）
Mr. Liu Jianwen（劉劍文）

Independent Non-executive Directors

Mr. Yu Jingsong（余勁松）
Mr. Zhang Jianqing（張建清）
Ms. Wang Xiuli（王秀麗）
Mr. Wong Ping（王平）

SUPERVISORS

Ms. Bao Hongwei（鮑紅偉）
Mr. Chen Kun（陳鯤）
Mr. Zhao Ruibao（趙瑞保）
Ms. Li Ying（李穎）
Ms. Wang Xiaohua（王曉華）
Mr. Zhang Lixing（張立興）
Mr. Xie Songwang（謝松旺）

AUDIT COMMITTEE

Ms. Wang Xiuli (*Chairlady*)
Mr. Zhang Jianqing
Mr. Zhang Wushan

COMPANY SECRETARY

Mr. Wong Cheuk Lam,（黃焯琳）
CPA, CPA Australia

COMPLIANCE OFFICER

Mr. Yan Guoqi

AUTHORISED REPRESENTATIVES

Mr. Yan Guoqi
Mr. Wong Cheuk Lam,
CPA, CPA Australia

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 908, 9th Floor
Hutchison House
10 Harcourt Road, Central
Hong Kong

LEGAL ADVISER TO THE COMPANY

As to Hong Kong law:
King & Wood
9th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

AUDITORS AND REPORTING ACCOUNTANTS

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Zhengzhou Commercial Bank,
Zhongyuen Branch
Zhongyuen Hotel
No. 200, Tongbo Road
Zhengzhou City
Henan Province
PRC

Industrial and Commercial Bank
of China,
Funiu Road Branch, Zhengzhou City
26 Funiu Road South
Zhengzhou City
Henan Province
PRC

STOCK CODE

3928

WEBSITE

www.hnzzgas.com

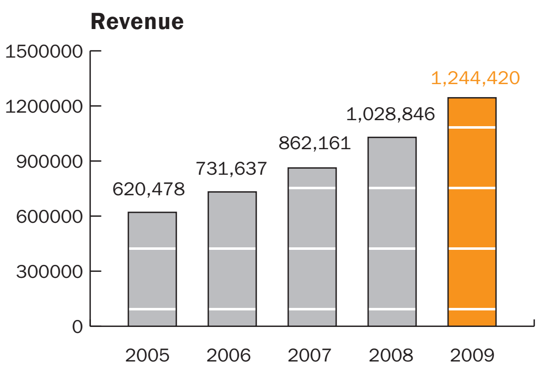
Financial Statistics

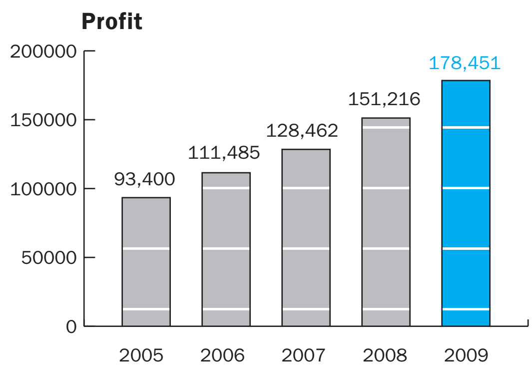
For the year ended 31 December

	2009 (RMB'000)	2008 (RMB'000)	2007 (RMB'000)	2006 (RMB'000)	2005 (RMB'000)
Revenue	**1,244,420**	1,028,846	862,161	731,637	620,478
Profit before tax	**243,728**	203,696	196,405	135,170	126,310
Profit attributable to the owners of the Company	**178,451**	151,216	128,462	111,485	93,400
Earnings per share (RMB Yuan) (Basic)	**1.426**	1.208	1.026	0.891	0.746

REVENUE AND PROFIT

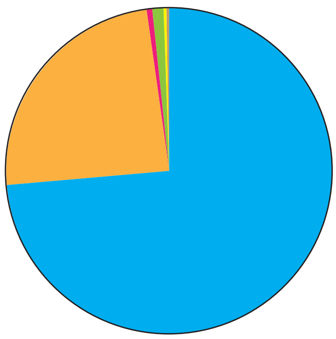
RMB'000





REVENUE BREAKDOWN

(For the year ended 31 December 2009)



Sales of natural gas	**74.11%**
Construction of gas pipelines	**24.05%**
Renovation service of gas pipelines	**0.71%**
Sales of gas appliances	**1.09%**
Sales of pressure control equipments	**0.02%**
Others	**0.02%**

Chairman's Statement

Mr. Yan Guoqi
Chairman

Dear Shareholders

In 2009, when facing the challenges posed by financial crisis, tight gas supply and increase of gas purchasing costs, Zhengzhou Gas Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") arduously procured gas resources, constantly expanded market space and refined gas supply mix, in order to increase revenue and decrease expenditures, and thus enhance economic returns. Meanwhile, the Group also committed itself to perfecting customer services, improving incentive mechanism, and encouraging technical and management innovations, which turned out to be awarded with encouraging operating results.

Performance Review

For the year ended 31 December 2009 (the "Year" or the "Relevant Period"), the Group realized prime operating revenue of RMB1,244 million, representing an increase of 20.95% as compared with the corresponding period of last year; net assets reached RMB869 million, representing an increase of 10.77% as compared with the corresponding period of last year; total assets reached RMB1,589 million, representing an increase of 15.59% as compared with the corresponding period of last year, net profit was RMB178 million, representing an increase of 18.01% as compared with the corresponding period of last year; earnings per share were RMB1.426.

In view of the encouraging operating results, the board of directors of the Company (the "Board") has resolved to distribute a final dividend of RMB0.1626 per share to our shareholders so as to share with them our golden harvest of the Year.

Corporate Development and Investment

Expand Market Space, Exploit New Business Areas

In the Year, the Group adopted different development strategies according to customers of different types, gas consumption volumes and gas demands, and placed the focus on the development of commercial and industrial users. Meanwhile, supplying gas by condensed natural gas tanker broke down the geographic limitations, expanding the development region from urban districts to suburban industrial parks. Peripheral areas such as Zhengbian Industrial Zone, Zhengzhou Aerial Port Area, Mazhai Industrial Area have been officially supplied with natural gas, and thus the market space has rapidly expanded. During the Year, the total sales of natural gas were 447 million m^3, representing an increase of 13.32% as compared with the corresponding period of last year; the Group developed 99,200 new users (including residential, commercial, industrial and vehicular users) in the Year, representing an increase of 12.59% as compared with the corresponding period of last year; the number of managing users reached 887,300.

At the same time, the Company cooperating with Zhengzhou Traffic and Transportation (Group) Co., Ltd. and taking the advantages in resources of both parties, established Henan Zhengran Jinxiang Vehicular Energy Co., Ltd. to develop the short and mid haul gas powered coaches market. According to the analysis of the feasibility study report of the Company, by 2012, the number of gas powered coaches using the gas supplied by the Company will reach 780, and the annual gas consumption volume will be about 38 million m^3 which will become a new profit driver of the Company.

Solve "Gas Shortage" by Active Purchase, Optimize Structure and Cut Costs

The management of the Company made providence at the beginning of the Year by actively conducting purchase and storage of natural gas, which made the Company handle the nationwide natural gas shortage in an effective and orderly way and meet the gas needs of residents' living and commercial production in the winter of the Year, and avoid the negative impacts of a large-scale suspension of gas supply. The Company purchased natural gas of 476 million m^3 during the Year, representing an increase of 14.3% as compared with the corresponding period of last year and being the highest record in history.

In addition to the increase in the purchasing volume of natural gas, the Company also committed itself to optimizing gas source structure. On one hand, we raised the purchasing volume of low-price West gas. The purchasing volume of West gas for the Year was 376 million m^3, which was 176 million m^3 more than the contractual amount and represented an increase of 31.8% as compared with the corresponding period of last year. The percentage that West gas accounted for the total gas purchasing volume increased from 68.5% of last year to 79.0% of the Year. On the other hand, we reduced the purchasing volume of high-price Erdos gas, which was 63 million m^3, representing an decrease of 26.7% as compared with the corresponding period of last year. The percentage that Erdos gas accounted for the total gas purchasing volume decreased from 20.7% of last year to 13.3% of the Year. The optimization of gas source structure helped to cut the purchasing costs.

Corporate Development and Investment (continued)

Increase Infrastructural Investment, Improve Gas Supply Capacity

During the Year, the Group has constructed 60-kilometer medium-pressure pipelines network and 275-kilometer yard pipelines network in the urban districts and started to construct the medium and the high pressure pipelines project in Northwestern 4th Ring. The extension of two gas stations and the construction of one primary filing station increased the daily gas supply of the Company by 115 thousand m^3. Full investment in infrastructure will improve the Company's overall layout of pipelines network, and further enhance the Company's pipelines' capacity of transmission and peak shaving. Besides, in the Year the Group also formulated 2008-2020 Zhengzhou City Gas Project Plan, which systematically planned the natural gas pipelines construction in Zhengzhou city.

Management and Innovation

Enhance Customer Services, Improve Safety Level

The Group took a series of measures to perfect customer services, including (i) expanding the payment channels by introducing card swiping payments on POS machines increasing and bank outlets that collect gas charges; (ii) extending the business hours of recharging IC cards; (iii) changing the IC card recharging policy by extending the gas purchasing cycle in winters from 2 months to 4 months to reduce the payment frequency; (iv) conducting a wide range of customer satisfaction survey, and soliciting comments from people from all walks of life; the satisfaction rate reached 99.83%, which indicated the ever-growing improvement of the Company's image and brand.

During the Year, the Group launched the implementation project of the occupational health and safety management system (OHSAS18001), and set up a new framework of dynamic safety management involving all staff. Meanwhile, the Group carried out 24-hour surveillance over road construction sites, and consequently the damage accidents caused by external forces have decreased by 70% as compared with the corresponding period of last year. The Group also strengthened its effort in treating illegal occupation of pipes, resulting in the fixing of 300 problems, setting the highest record in history. The improvement of the safety system laid the foundation for the Group's stable and harmonious development.

Make Use of the Effect of Performance Incentive; Enhance the Capacity of Self-motivated Innovation

During the Relevant Period, the Group further pushed the result-oriented target system, distinguished fundamental targets and risk targets, set up reward grades and intensified the goal-oriented effects, which assured a successful achievement of the yearly target. At the same time, the Group perfected the policy of market exploitation reward that was fair in meting out rewards or punishments, and thus aroused the staff's enthusiasm in exploiting markets. Additionally, the Group also implemented the policy of rewarding transmission loss control, reducing gas charge loss of RMB1.5 million. Under the scientific performance mechanism, the Group's management proficiency has been greatly improved.

In the Year, the Group improved the innovation reward mechanism, which encouraged the staff's innovation enthusiasm. The Group subsequently finished 56 technical and management innovations, including the renovation of automatic control system in a storage station of liquefied natural gas and the research on safety technology of gas station extension. The application of all these innovation achievements enhanced the management and promoted the Group's scientific development.

Looking Forward

In 2010, the Group will face more development opportunities. With the operation of Phase II of West-East Gas Transmission Pipeline project, the Group will have more sufficient gas sources, which will be the foundational guarantee of the Group's development. Besides, the speed-up of the urbanization process of Zhengzhou city, the plan of building the Zhengzhou New District proposed by the government, and the increase of the needs for gas in new countryside will provide us with vast market development space. The exploitation of the CNG coach market will lead us to a new gas supply area as well In the meantime, taking advantage of implementing gas price reform by the central government, we will build a harmonious and stable policy environment for customer development with a cost-link mechanism.

Year 2010 is the first year of cooperating with China Resource Gas (China) Investment Limited ("CRGI"). Making use of CRGI's advantages in all respects, the Group will possess more stable upstream gas resources, more reliable funding supports and more standardized management mode. Aiming at integrating resources and deepening synergy, the Group will fully make use of the advantage of the Group's specialized operation, concentrate on the development of primary operation of gas, arduously exploit gas markets, expand operation areas and enlarge the gas supply scale. The Board and the management bearing the mission of serving the society and benefiting the shareholders will adhere to realism and innovation, and progress and change. We shall scientifically make decisions, and shall continue to make effort for the Company's development.

Finally, on behalf of the Board, I wish to express my heartfelt appreciation to our shareholders and the community who give persisting supports to the Company, and extend my sincere gratitude to the diligent and enterprising management team and to the devoted and industrious staff.

Zhengzhou Gas Company Limited
Yan Guoqi
Chairman

30 March, 2010

Management Discussion and Analysis

Mr. Li Jinlu
Vice-chairman and General Manager

Performance review

The following analysis should be read in conjunction with the audited consolidated financial statements and relevant sections in this report.

The Group is principally engaged in the sales of piped natural gas and gas appliances to residential, commercial, industrial and vehicular users, sales of pressure control equipments and provision of gas pipeline construction services. Analysis of the revenue of products and services (see Table 1), the number of users of natural gas (see Table 2) and gas consumption (see Table 3) as at 31 December 2009 and 2008 are set out below:

Performance review (continued)

Table 1 Revenue

	As at 31 December				
	2009		2008		
	Revenue (RMB'000)	**As % of Revenue**	Revenue (RMB'000)	As % of Revenue	Growth %
Natural gas	**930,359**	**74.11%**	747,413	71.96%	24.48%
Gas appliances	**13,685**	**1.09%**	11,348	1.09%	20.59%
Pressure control equipments	**259**	**0.02%**	1,530	0.15%	-83.07%
Gas pipelines					
– Connection and construction	**302,012**	**24.05%**	271,339	26.12%	11.30%
– Provision of renovation work	**8,949**	**0.71%**	7,008	0.67%	27.70%
Others	**194**	**0.02%**	86	0.01%	125.58%
	1,255,458	**100.00%**	1,038,724	100.00%	20.87%
Less: Business tax and government surcharges	**(11,038)**		(9,878)		
Total	**1,244,420**		1,028,846		20.95%

Performance review (continued)

Table 2 Number of users of natural gas

	As at 31 December		
	2009	2008	Growth %
Residential users	**875,614**	777,836	12.57%
Commercial users	**2,297**	2,016	13.94%
Industrial users	**73**	66	10.61%
Vehicular users	**9,344**	8,216	13.73%
Total	**887,328**	788,134	12.59%

Table 3 Gas consumption

	As at 31 December				
	2009		2008		
	Gas consumption	**As % of total gas consumption**	Gas consumption	As % of total gas consumption	Growth %
Natural gas					
Total gas consumption (in approximate '000 m^3)	**447,226**		394,665		13.32%
of which					
Residential users	**148,699**	**33.25%**	139,084	35.24%	6.91%
Commercial users	**155,030**	**34.67%**	125,682	31.85%	23.35%
Industrial users	**72,516**	**16.21%**	69,915	17.71%	3.72%
Vehicular users	**70,981**	**15.87%**	59,984	15.20%	18.33%

Performance review (continued)

General

For the year ended 31 December 2009, the Group recorded a total revenue of approximately RMB1,244,420,000 and a gross profit of approximately RMB378,355,000. The total revenue increased by 20.95% as compared with the corresponding period of last year mainly due to the satisfactory increase in the number of customers of natural gas, which resulted in the increase of revenue from sale of natural gas and gas pipelines construction.

During the Relevant Period, the overall gross profit margin of the Group was approximately 30.40%, representing a slight increase of approximately 0.09 percentage point as compared with approximately 30.31% of the corresponding period of last year. The increase of gross profit margin was primarily due to the fact that the gross profit margin of the sales of natural gas increased to approximately 13.55% in the Relevant Period from approximately 12.66% of the corresponding period of last year. The gross profit margin of the sales of natural gas increased as a result of the rise in residential and commercial natural gas prices since March 2009 and it is equivalent to an increase of 0.89 percentage point despite the increased costs for gas purchases during the second half of the Year.

During the Relevant Period, the aggregate selling and distribution costs and administrative costs were approximately RMB48,779,000 and RMB78,799,000 respectively, representing increases of approximately 18.74% and 16.74% respectively as compared with the corresponding period of last year. The increase in selling and distribution costs was mainly due to the increase in human resource costs, depreciation expenses and publicity costs as a result of the expansion of the scale of operation. The increase in administrative costs was mainly due to the increase in employee salary and labour insurance.

Other expenses of the Group amounted to approximately RMB16,597,000, which was chiefly ascribable to the costs resulting from the termination of a natural gas pipeline construction project and impairment losses of other assets.

Income tax expenses of the Group for the Relevant Period were approximately RMB63,269,000, representing a increase of approximately 22.79% from approximately RMB51,528,000 in the corresponding period of last year, mainly due to a higher amount of income tax payment as a result of profit increase.

During the Relevant Period, the net profit attributable to owners of the Company was approximately RMB178,451,000, representing an increase of approximately 18.01% from approximately RMB151,216,000 for the corresponding period of last year.

Sales of piped natural gas

The revenue attributed to the sales of piped natural gas for the Relevant Period amounted to approximately RMB930,359,000, representing an increase of 24.48% as compared with approximately RMB747,413,000 for the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 447,226,000 m^3, representing an increase of approximately 13.32% as compared with approximately 394,665,000 m^3 for the corresponding period of last year.

Performance review (continued)

Sales of piped natural gas (continued)

During the Relevant Period, the stable supply of natural gas in Zhengzhou led to a general increase in gas consumption by all types of gas users. Gas consumption by residential, commercial, industrial and vehicular users was up 6.91%, 23.35%, 3.72% and 18.33%, respectively. Among which, the increase in residential and commercial gas consumption remained stable due to urbanization and environmental protection policy; while the gas consumption by industrial users was impacted by the global financial tsunami at the beginning of the Year, as a result of which some users have reduced or ceased production, which in turn caused a substantial slowdown in gas consumption; however during the second half of the Year, gas consumption by industrial users has regained the motive force of growth with economic stabilization; and the significant increase in vehicular gas business was mainly attributable to the comparable price advantage for natural gas over petrol.

As at 31 December 2009, the Group has 875,614 residential users, representing an increase of 97,778 users as compared with 777,836 residential users as at 31 December 2008; 2,297 commercial users, representing an increase of 281 users as compared with 2,016 commercial users as at 31 December 2008; 73 industrial users, representing an increase of 7 users as compared with 66 industrial users as at 31 December 2008; 9,344 vehicular users, representing an increase of 1,128 users as compared with 8,216 vehicular users as at 31 December 2008.

During the Relevant Period, the Group purchased approximately 375,975,000 m^3, 63,206,000 m^3 and 19,048,000 m^3 of natural gas from the "Project of Transmitting Natural Gas through the West to the East Pipelines", the Ordos Gasfield and Zhongyuan Oilfield respectively, representing respectively approximately 79.02%, 13.28% and 4% of the Group's total purchases of natural gas. During the Relevant Period, the Group's cost for gas purchases kept climbing, and the average cost for gas purchases rose from approximately RMB1.3348/m^3 in 2008 to approximately RMB1.4443/m^3 in the Year.

Acquisition and Investment

In respect of external investments, the investment of the Group in Pingdingshan City Gas Company Limited ("Pingdingshan Gas", reorganized from Pingdingshan City Gas Corporation) started making contribution to the Group's profit gaining. During the Relevant Period, the Group had approximately RMB4,764,000 of increased share of profit of an associate due to this investment.

Sales of gas appliances and pressure control equipments

The Group is also engaged in sales of gas appliances and pressure control equipments. The gas appliances available for sales mainly include gas stoves, water heaters and fire alarms. These gas appliances were purchased from several gas appliance producers and sold through the Group's sales outlets in Zhengzhou. In relation to pressure control equipments, the main target clients are natural gas users in Zhengzhou and other natural gas suppliers. For the Relevant Period, revenue from sales of gas appliances and pressure control equipments amounted to approximately RMB13,685,000 and RMB259,000 respectively.

Performance review (continued)

Natural gas pipeline construction services

For the Relevant Period, the Group's revenue derived from provision of natural gas pipeline construction services amounted to approximately RMB302,012,000 which increased approximately 11.30% as compared with the total revenue of approximately RMB271,339,000 for the corresponding period of last year, representing the connection of natural gas supply for 84,957 residential users and 356 commercial users. The average fee for connection of natural gas supply for each residential user was approximately RMB3,239 while that for each commercial user was approximately RMB63,699. The increase in the revenue from natural gas pipeline construction services was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users. Furthermore, the Group also received revenue from other construction projects amounting to approximately RMB4,143,000.

In addition, the Group also collected fees from users for providing gas pipeline renovation services. During the Relevant Period, such fees amounted to approximately RMB8,949,000, representing a increase of 27.70% as compared with approximately RMB7,008,000 for the corresponding period of last year. The increase was mainly attributable to the increase in the number of outdoor gas pipeline renovation projects.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was 14.34% which was lower than 14.70% recorded for the corresponding period of last year. The decrease was mainly due to the costs resulting from the termination of a natural gas pipeline construction project and impairment losses of other assets.

In addition, average return to shareholders of the Company for the Relevant Period, based on the profit attributable to owners of the Company divided by the average of equity attributable to owners of the Company at the beginning and at the end of the Relevant Period, was approximately 21.93% which is higher than that of 20.99% of the corresponding period of last year. The increase is mainly due to the decrease in the average of equity attributable to shareholders resulting from the payment of special dividend in the past year.

Liquidity, financial resources and capital structure

Share consolidation

In order to meet the requirements for listing in A share stock market in the PRC, the Board proposed in the shareholders' circular dated 3 April 2009 that every ten issued H shares of RMB0.10 each (each a "H Share") would be consolidated into one consolidated H share of RMB1.00 each ("Consolidated H Shares"); and every ten issued domestic shares of RMB0.10 each (each a "Domestic Share") would be consolidated into one consolidated domestic share of RMB1.00 each ("Consolidated Domestic Share") (the "Share Consolidation"). The resolution of Share Consolidation was passed by the shareholders of the Company at the annual general meeting ("AGM") and class meetings of holders of H Shares and Domestic Shares held on 21 May 2009. The Share Consolidation was formally effective on 22 May 2009. Before the Share Consolidation became effective, the registered share capital of the Company was RMB125,150,000 comprising 700,840,000 Domestic Shares and 550,660,000 H Shares of RMB0.10 each of which all of them are in issue and fully paid. After the Share Consolidation became effective, the registered share capital of the Company remained at RMB125,150,000 comprising 70,084,000 Consolidated Domestic Shares and 55,066,000 Consolidated H Shares of RMB1.00 each of which all of them are in issue and fully paid.

Borrowing and banking facilities

The Group currently finances its capital expenditure and operations mainly by internally generated funds, bank loans and its bank deposits or cash on hand. The Group is of the view that, in the long run, the Group will generate its liquidity from business operations and will consider making use of further equity finances or bank loans when necessary.

As at 31 December 2009, the Group had no interest-bearing bank borrowings.

Net current liabilities

As at 31 December 2009, the Group had net current liabilities of approximately RMB126,946,000 (31 December 2008: net current liabilities of approximately RMB34,624,000). There was an advanced payment received of approximately RMB447,502,000 in the current liabilities, which was deferred revenue, not an amount payable as a liability in nature. The Group had net current assets of approximately RMB320,556,000 after deducting such advanced payment received.

Working capital

As at 31 December 2009, the Group had cash and bank balances of approximately RMB321,732,000.

Equity to liabilities ratio

As at 31 December 2009, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 120.75%, which was lower than that of approximately 133.01% as at 31 December 2008, mainly due to the payment of special dividend in the past year which caused a decrease in equity attributable to shareholders and a decrease in equity to liabilities ratio.

Liquidity, financial resources and capital structure (continued)

Commitments

In order to keep pace with the urbanization and environmental protection policies of Zhengzhou City, the Group is determined to further expand its urban natural gas pipeline network and related gas supply equipments. As at 31 December 2009, the Group had commitments of approximately RMB133,816,000, mainly pertinent to contracts of pipeline network construction and equipment purchases. The management believes that such expenditure can be defrayed by revenue generated from operations or bank loans.

Foreign exchange risk

All of the Group's businesses are operated in the PRC and all of its transactions are settled in Renminbi. Therefore, the Group's exposure to foreign currency risk is minimal.

Contingent liabilities and pledged assets

As at 31 December 2009, the Group had no significant contingent liabilities or any asset under pledge.

Employees and remuneration policy

Human resources

An analysis of the Group's employees by functions as at 31 December 2008 and 2009 is as follows:

	As at 31 December	
	2009	2008
Management and administration	**409**	348
Finance	**40**	39
Sales and marketing	**210**	196
Safety maintenance and technical upgrading	**204**	196
Purchases and supplies	**17**	17
Engineering and installation	**116**	115
Repairs, maintenance and testing	**308**	295
Others	**350**	348
Total	**1,654**	1,554

As at 31 December 2009, the Group had 1,654 employees, an addition of 100 employees as compared with 1,554 employees in the corresponding period of last year.

Employees and remuneration policy (continued)

The salaries of the Group's employees are determined by reference to the performance, qualifications and experience of the individual staff. A discretionary incentive bonus based on individual performance during the year would be paid by the Group to reward their contributions to the Group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. In the Relevant Period, the total staff costs of the Group amounted to approximately RMB118,400,000, representing an increase of approximately 25.82% as compared with that of approximately RMB94,099,000 for the corresponding period of last year.

Material acquisitions and disposals of subsidiaries and associated companies

In 2009 and the corresponding period of last year, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

Material investment

As at 31 December 2009, the Group had no material investment, and likewise as at 31 December 2008.

Charge on assets

As at 31 December 2009 and 2008, the assets of the Group were not under any charge.

Prospects

Cooperation with China Resources Gas (China) Investment Limited

The State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality ("Zhengzhou SASAC") and CRGI, a wholly owned subsidiary of China Resources Gas Group Limited (Stock code: 1193) ("CRGG") signed several agreements to explore the potential cooperation opportunities in Zhengzhou ("Potential Cooperation") on 25 November 2009. The Potential Cooperation involves an acquisition of 54,041,510 Domestic Shares of the Company (representing approximately 43.18% of the total issued share capital of the Company) by a joint venture (the "JV"), in the equity interest of which CRGI and Zhengzhou SASAC hold 80% and 20% respectively (the "Share Acquisition"). The detailed information about the Potential Cooperation can be found in the joint announcements (the "JA") made by the Company and CRGG dated 25 November 2009 and 11 December 2009. If the Share Acquisition is successfully completed, the JV will own approximately 43.18% equity interest of the total issued shares of the Company and CRGI will indirectly own approximately 34.5% equity interest of the Company by holding 80% equity interest of the JV. Accordingly, the Potential Cooperation will result in change of controlling shareholding of the Company and CRGI shall be required to make a mandatory cash offer for all domestic shares and H shares of the Company other than those owned or agreed to be acquired by CRGI and its concert parties according to Hong Kong codes on takeovers and mergers and share repurchases.

The Board is of the view that if the Potential Cooperation between CRGI and Zhengzhou SASAC succeeds, the Company will have more positive prospects with the support from CRGI.

Prospects (continued)

Withdrawal of the Issue and Listing of A Shares

Since the successful completion of the Share Acquisition will result in the transfer of approximately 43.18% of the total issued share capital of the Company from Zhengzhou SASAC (which will be the controlling shareholder of the Company after Zhengzhou SASAC acquired 54,041,510 Domestic Shares representing approximately 43.18% of the total issued share capital of the Company from Zhengzhou Gas Group Company Limited ("Zhengzhou GGCL" or "Zhengzhou Gas Group")) to the JV controlled by CRGI, the sponsor of the listing application of A Shares of the Company suggested that the Company should consider to withdraw the listing application on the ground that as the China Securities Regulatory Commission ("CSRC") may regard the Share Acquisition as a change in control of the Company upon completion of the Share Acquisition, it may become a major obstacle of obtaining an approval for the listing application. On 19 March 2010, the Board resolved to withdraw the A Shares issue and listing application from the CSRC after taking the possibility of successful listing and ongoing costs of listing application into consideration.

The directors of the Company (the "Directors") believe that the withdrawal of the A Shares issue and listing application will not adversely affect the development of the Company as most projects such as Zhengzhou High Pressure Circular Gas Pipelines Construction Project, construction of natural gas stations, acquisition of coal gas assets proposed to be financed by the proceeds from the proposed A Shares Issue have already been financed partially or entirely by the internal resources of the Group or bank borrowing. In the meantime, the Company determined to terminate the construction of Boai-Zhengzhou Natural Gas Pipeline Project, one of the projects in the proposed A Shares Issue, because the upper stream pipeline construction has not been processed as well as expected. However, the Company has believed that it will be able to procure sufficient natural gas for future development in the second phase of the "Project of Transmitting Natural Gas through the West to the East Pipeline".

Prospect of expanding customer base

In order to implement the policy of "The Rise of Central China", Zhengzhou is accelerating its city construction. The Zhengzhou New District under construction includes the Zheng East New District, Baisha Guandu property aggregation zone at Zhengzhou-Kaifeng property zone ("Baisha Guandu Zone") and the Aerial Port Zone shall make Zhengzhou one of the regional hubs in the PRC with massive population flow, logistics activities and capital flow. According to the plans of the Zhengzhou Municipal Government, the 143 urban villages in the Zhengzhou City will all be reconstructed by stages. The reconstruction of these urban villages will involve 100,000 mu of land and 300,000 ordinary residents. According to the 2008-2012 housing plan of Zhengzhou City, the number of residential users will keep growing steadily.

In the development of commercial users, with the acceleration of investment and construction of Baisha Guandu Zone and the Aerial Port Zone, new opportunities will be created for the development of our natural gas business. With the increase in the number of commercial users in these two areas, it is expected that the gas consumption by the commercial users will increase steadily.

Prospects (continued)

Prospect of expanding customer base (continued)

During the Relevant Period, the export from China was declining greatly and the demand was shrinking as a result of the international financial crisis, which led to a decrease in gas consumption of some industrial users. Thanks to the fact that China's economy tends to stabilize with the increasing stabilization of the economy of other countries around the world and the obvious effects of China's macroeconomic measures during the second half of the year 2009, there was an indication that the industrial gas consumption has started to regain its momentum.

In respect of the vehicular gas business, the Company signed a joint venture agreement with Zhengzhou Traffic and Transportation (Group) Co., Ltd ("ZTTG") on 10 August 2009, each contributing RMB22,000,000 and RMB18,000,000 as share capital respectively, to establish a joint venture (namely Henan Zhengran Jinxiang Vehicular Energy Co., Ltd.) to jointly develop the short and mid haul gas powered coaches market in Henan province. During the early phase of operation, the main goal of the joint venture is to build compressed natural gas refueling stations so as to meet the gas consumption demand of short and mid haul coaches and other car users operated by ZTTG and to research into techniques of application of liquid natural gas. ZTTG is currently the largest highway transportation enterprise in Henan province, having more than 8,300 employees and 2,000 coaches. The Group believes that the establishment of the joint venture will help expand the current business and enlarge the sources of earnings of the Group.

Directors (Note)

Executive Directors

Mr. Yan Guoqi (閆國起), aged 55, Chairman, an executive Director and compliance officer. He is a representative of the 11th Session of the National People's Congress of Henan Province, head of the Urban Gas Association of Henan Province and a senior engineer. He was the deputy head of a water plant, head of water supply management and deputy general manager of Zhengzhou Municipal Water Company (鄭州市自來水公司) from 1987 to 1997, deputy general manager of Zhengzhou Municipal Natural Gas Corporation (鄭州市天然氣總公司) from 1997 to 1998, deputy chairman and deputy general manager of Zhengzhou Municipal Gas Company Limited (鄭州市燃氣有限公司) from 1998 to 2000, and deputy chairman and general manager of Zhengzhou Gas Group since 2000. Mr. Yan was appointed as the Chairman of the Company in 2001. In October 2007, he was appointed as the Chairman, party secretary and general manager of Zhengzhou Gas Group. In December 2009, he was appointed as the chairman of Zhengzhou China Resources Gas Limited Company ("Zhengzhou China Resources Gas").

Mr. Li Jinlu (李金陸), aged 43, deputy chairman, an executive Director, general manager and a senior engineer. He is a representative of the 13th Session of the National People's Congress of Zhengzhou City, the head of pipeline network of Zhengzhou Municipal Natural Gas Corporation, head of gas supply management office and chief economist of Zhengzhou Municipal Gas Company Limited from 1988 to 2000. Mr. Li was the chief economist of Zhengzhou Gas Group from December 2000 to August 2002 and a director of Zhengzhou Gas Group from 2002 to January 2007. Mr. Li had been the deputy general manager and executive deputy general manager of the Company from December 2000 to 2007. Mr. Li was the chairman of Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司) and Dengfeng Zhengran Gas Company Limited (登封鄭燃燃氣有限公司), both being subsidiaries of the Company. In October 2005, he was appointed as the executive Director of the Company and; in October 2007, he was appointed as General Manager of the Company and the deputy party secretary of Zhengzhou Gas Group. Mr. Li has been the vice chairman of the Company since 26 March 2008.

Mr. Li Hongwei (李紅衛), aged 39, deputy chairman, executive Director and standing deputy general manager of the Company, committee member of the Youth Federation of Zhengzhou. Mr. Li holds a master degree in economics and is a doctorate student in economics. He has been the deputy chief economist of Zhengzhou Municipal Gas Company Limited, head of general office of Zhengzhou Gas Group and secretary to the Board since 1999. From December 2005 to October 2007, Mr. Li was appointed as the assistant president of Launch Tech Company Limited. In October 2007, Mr. Li was appointed as a director of Zhengzhou Gas Group, and also acted as a director of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited and Zhengzhou Zhengran Pressure Control Technology Company Limited (all being subsidiaries of the Company). From October 2007 to December 2009, he was appointed as deputy general manager of the Company. In January 2008, Mr. Li was appointed as the Director of the Company. Mr. Li has been the deputy chairman of the Company since 26 March 2008 and the vice chairman of Pingdingshan Gas Limited Liabilities Company (平頂山燃氣有限責任公司) since 12 August 2008. From December 2009, he was appointed as director of Zhengzhou China Resources Gas.

Note: "Director(s)" mentioned in this annual report refers to the director(s) of the Company.

Non-executive Directors

Mr. Song Jinhui (宋金會), aged 56, a non-executive Director and a senior engineer. Mr. Song is a representative of the 14th Session of the National People's Congress of Zhongyuan District of Zhengzhou City. He was deputy head of the general office of Zhengzhou Municipal Coal Gas Company (鄭州市煤氣公司) from 1983 to 1986. He was the head of safety and technology department and sales and services outlets, deputy general manager of Zhengzhou Municipal Natural Gas Corporation, deputy general manager of Zhengzhou Municipal Gas Company Limited and general manager of the Company from 1986 to 2007. He has been the deputy chairman of Zhengzhou Gas Group from December 2000 to May 2009.

Mr. Zhang Wushan (張武山), aged 54, a non-executive Director and a senior engineer. He was the head of storage and distribution station, chief dispatcher and the head of measuring department and chief engineer of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997. He was the chief economist and deputy general manager of Zhengzhou Municipal Gas Company Limited and chairman of Zhengzhou Gas Real Estate Development Company Limited (鄭州燃氣房地產開發有限公司) since 1998. He is currently a director and standing deputy general manager of Zhengzhou Gas Group. Mr. Zhang was appointed as a non-executive Director in December 2000. In December 2009, Mr. Zhang was appointed as deputy general manager of Zhengzhou China Resources Gas.

Mr. Ding Ping (丁平), aged 46, chairman of the labour union, a non-executive Director and a political engineer. Mr. Ding was the branch party secretary of iron cylinder testing section and organisation and promotion office of Zhengzhou Municipal Coal Gas Company, head of the party commission office and manager of the Industrial Company of Zhengzhou Municipal Gas Company Limited. Mr. Ding is also the deputy party secretary of the Company and the head of general office of Zhengzhou Gas Group. He was the chairman of the supervisory committee and a supervisor of the Company from December 2000 to January 2008. Mr. Ding has been the chairman of the labour union committee and a Director of Zhengzhou Gas Group since October 2007. He was appointed as a non-executive Director in January 2008.

Mr. Liu Jianwen (劉劍文), aged 50, an independent non-executive Director. Mr. Liu holds a doctorate degree in jurisprudence. He is presently a professor of Beijing University and a supervisor of doctoral candidates, officer of Peking University Fiscal Law Research Center, an arbitrator of China International Economic and Trade Arbitration Commission. He is also the president of the Institute for Fiscal and Tax Law Research under China Law Society and president of International Tax Law Research Association. Mr. Liu also acted as the leader of the drafting team of the Basic Law for Taxation of the People's Republic of China – a project entrusted by the Finance and Economy Working Committee of National People's Congress, consultant of the drafting team of the Law for Fiscal Transfer Payment of the People's Republic of China – a project entrusted by the Budget Working Committee of the Standing Committee of National People's Congress, consultant of the drafting team of the Law of the People's Republic of China on the State-Owned Assets of Enterprises of National People's Congress and the chief expert in China side of the State Administration of Taxation on "the World Bank debt project – Research on Taxation Law System Reform and Consummation after China's entry to WTO". Mr. Liu is also the independent non-executive directors of Zhejiang Hailiang Co., Ltd (浙江海亮股份有限公司), a company listed in Mainland China (stock code: 002203), Shangdong Jicheng Electronics Co., Ltd. (山東積成電子股份有限公司), Beijing Beilu Pharmaceutical Company Limited (北京北陸藥業股份有限公司) and Nantong Fujitsu Microeletronics Co. Ltd. (南通富士通微電子股份有限公司). Mr. Liu was appointed as an independent non-executive Director in April 2002. He was subsequently appointed as a non-executive Director following his retirement as independent non-executive Director in April 2009.

Independent Non-executive Director

Mr. Yu Jingsong (余勁松), aged 56, an independent non-executive Director, a doctorate degree holder in Law. From December 1984 to July 2002, he was a lecturer in Wuhan University, and had been the department head of International Law and associate dean of the Law Faculty of Wuhan University. He is currently a professor and supervisor of doctorate students of the Law School and head of the International Law Centre of Renmin University of China. From May 2003 to May 2009, he was appointed an independent non-executive director of Beijing North Star Company Limited (北京北辰實業股份有限公司), a company listed on the Main Board and the Shanghai Stock Exchange. Mr. Yu was appointed as an independent non-executive Director in April 2009.

Mr. Zhang Jianqing (張建清), aged 46, an independent non-executive Director, a professor and supervisor of doctorate students of the School of Economics and Management of Wuhan University, and associate dean of the School of Development and Research of Central China of Wuhan University. In 1988, he obtained a master's degree in world economics from Wuhan University and was retained as a lecturer in the university. In 1994, he obtained a doctorate degree in economics and became a professor in 2000. In June 2001, he was elected as a supervisor for doctorate students. He was appointed as the deputy head of the department of world economics of the faculty of economics in 1995, the department head of world economics of the School of Economics and Management in 2005 and the associate dean of the School of Research and Development of Central China of Wuhan University in 2007. Mr. Zhang was appointed as an independent non-executive Director in April 2009.

Ms. Wang Xiuli (王秀麗), aged 44, an independent non-executive Director, a doctorate degree holder in economics. She has been teaching in the University of International Business and Economics since 1998. She obtained a doctorate degree in economics in 2006. She is currently the executive director, professor and supervisor of doctorate students of the accounting department of the Business School of the University of International Business and Economics. Ms Wang is a non-professional member of The Chinese Institute of Certified Public Accountants. Ms. Wang was appointed as an independent non-executive Director in April 2009.

Mr. Wong Ping (王平), aged 49, an independent non-executive Director. He graduated from Henan University of Television Broadcast majoring in commercial corporate management. Mr. Wong has extensive experience in corporate management and finance. He was formerly an assistant manager of Henan Zhoukou District Price Bargaining Company (河南省周口地區議價公司), a manager of general business department of Henan Province Foreign Trade of Commodity Development Company (河南省外貿商品開發公司), a deputy general manager of Henan Imports and Exports Company of China National Cereals, Oils and Foodstuffs Corporation (中糧河南進出口公司) and is currently a deputy general manager of Henan Zhengzhou Rongyuan Shopping Plaza Company Limited (河南鄭州融元購物廣場有限公司). Mr. Wong was appointed as an independent non-executive Director in November 2006.

Supervisors (Note)

Ms. Bao Hongwei (鮑紅偉), aged 51, chairperson of the supervisory committee, discipline secretary and deputy party secretary as well as a member of the 12th Session of the National People's Congress Committee of Zhengzhou City and a member of the 7th Session of the National People's Congress Committee of Zhongyuan District, Zhengzhou City. From 1997 to 2000, Ms. Bao was the deputy head and head of the Zhengzhou City Natural Gas Corporation's General Manager's Office, and head of the Human Resources Department of Zhengzhou City Municipal Gas Company Limited. Ms. Bao was the chairperson of the Company's labour union and chairperson of the labour union of Zhengzhou Gas Group since 2000. She is currently deputy party secretary, secretary for the disciplinary committee of Zhengzhou Gas Group and chairperson of Zhengzhou Zhengran Property Management Company Limited (鄭州燃氣物業管理有限公司) and a supervisor of Zhengzhou Gas Estate Development Company Limited. Ms. Bao was appointed as a Supervisor (on behalf of the staff) and chairperson of the supervisory committee of the Company in January 2008. In December 2009, she was appointed as supervisor of Zhengzhou China Resources Gas.

Mr. Chen Kun (陳鯤), aged 45, a Supervisor and a senior engineer with a doctorate degree in engineering. Mr. Chen was previously an engineer of Henan Research Institute of Metallurgical Planning and Design (河南冶金規劃設計研究院) and Institute of Urban Utilities Design of Chung Nan City (中南市政設計院). Mr. Chen was appointed as the deputy general manager of Zhengzhou Gas Group and the chairman of Zhengran Gas Design Development Company Limited (鄭燃燃氣設計開發有限公司) in May 2003 and February 2007 respectively. In December 2009 he was appointed as deputy general manager of Zhengzhou China Resources Gas.

Mr. Zhao Ruibao (趙瑞保), aged 43, a Supervisor and a senior engineer. He was appointed as the manager of the natural gas sales branch of the Company in 2000. From 2002 to 2005, he served as the deputy chief engineer, chief engineer, assistant to general manager and secretary to the Board. He was appointed as a Supervisor in January 2008. In December 2009, he was appointed as chief economist of Zhengzhou China Resources Gas.

Li Ying (李穎), aged 36, Supervisor, graduated from Henan University of Finance and Economics with a bachelor degree in Labor Economics and is an economist. She is currently the head of the human resources department of Zhengzhou Gas Group. She was the deputy head of the human resources department of Zhengzhou Gas Group from October 2000 to August 2002 and the chief economist from August 2002 to August 2004. Between August 2004 and October 2007, she was the chief economist of the human resources department of the Company and has been the head of the human resources department of Zhengzhou Gas Group since October 2007. Ms. Li was appointed as a Supervisor in October 2009. In December 2009, she was appointed as chief human resources officer of Zhengzhou China Resources Gas.

Ms. Wang Xiaohua (王曉華), aged 46, a Supervisor, the head of the audit and supervision department of the Company and an accountant. From October 2000 to October 2007, Ms. Wang has successively been the deputy head and head of the finance and investment department of Zhengzhou Gas Group, and the head of the financial and securities department of the Company. In October 2007, she was appointed as the head of the audit and monitoring department of the Company. She is also the chairperson of the supervisory committees of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited, Zhengzhou Zhengran Pressure Control Technology Company and a supervisor of Zhengzhou Aerial Port Area Gas Company Limited. Ms. Wang is also a supervisor of Nanyang Zhengran Gas Co., Ltd.(南陽鄭燃燃氣有限公司) and a director of Zhengzhou Gas Design Development Company Limited (鄭燃燃氣設計開發有限公司) (all being subsidiaries of Zhengzhou Gas Group). She was appointed as a Supervisor in January 2008.

Note: "Supervisor(s)" mentioned in this annual report refers to the supervisor(s) of the Company.

Zhang Lixing(張立興), aged 67, Supervisor, attained tertiary education in Physics. He was the deputy secretary-general and secretary-general of Zhengzhou Municipal Government from January 1984 to February 1994. From March 1994 to July 2001, he was subsequently appointed as the member of the standing committee, secretary-general of Zhengzhou Municipal Committee as well as the executive vice mayor of Zhengzhou Municipal Government. He was the deputy officer of the National People's Congress of Zhengzhou Municipal from July 2001 to April 2004 and retired in April 2004. Mr. Zhang was appointed as a Supervisor in October 2009.

Xie Songwang(謝松旺), aged 67, Supervisor, has a bachelor degree in Law. He was subsequently the officer of the office of Zhengzhou Municipal Discipline Inspection Commission, the section chief of Urban Inspection Unit, member of the standing committee of and deputy secretary to the Zhengzhou Municipal Discipline Commission from June 1979 to June 1993. Between June 1993 and December 2001, he was the deputy procurator-general of the People's Procuratorate of Zhengzhou municipal (and a political member of the Inspection Bureau for Corruption and Bribery of Zhengzhou Procuratorate between June 1993 and November 1994). He was a researcher (county-level) of Zhengzhou Procuratorate from December 2001 to May 2003 and retired in May 2003. Mr. Xie was appointed as a Supervisor in October 2009.

Senior Management

Mr. Liu Daoshuan (劉道栓), aged 44, deputy general manager and a senior engineer. He was deputy head of the general office, head of technical equipment, head of design institute of Zhengzhou Municipal Coal Gas Company and deputy manager of LPG Branch of Zhengzhou Municipal Gas Company Limited from 1992 to 2000. In December 2000, Mr. Liu was appointed as the chief engineer of the Company. He was appointed as the Company's deputy general manager in August 2002. From October 2007 to June 2009, he was appointed as director of Zhengzhou Gas Engineering and Construction Company Limited. He was appointed as a director of Zhengzhou Gas Group in October 2007. He is the chairman of Zhengzhou Zhengran Pressure Control Technology Company. He was appointed as a director of Henan Zhengran Jinxiang Automobile Energy Co. Ltd ("Zhengran Jinxiang").

Mr. Li Zizheng (李自正), aged 45, the chief accountant. From 1998 onwards, Mr. Li was the deputy head of the finance department of Zhengzhou City Natural Gas Company Limited, deputy head and head of the finance department of Zhengzhou Municipal Gas Company Limited, head of the finance and investment department and the chief accountant of Zhengzhou Gas Group, and the financial controller of the Company. Mr. Li was the chief financial officer of the Company from October 2005 to October 2007. In October 2007, Mr. Li was appointed as the chief accountant of the Company, and a director of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited and Zhengzhou Zhengran Pressure Control Technology Company Limited, all being the subsidiaries of the Company. Mr. Li is currently also a director of Zhengzhou Gas Estate Development Company Limited and Commercial Bank of Zhengzhou and chairman of the supervisory committee of Nanyang Zhengran Gas Co., Ltd.. He was appointed as chief accountant of Zhengzhou China Resources Gas.

Ms. Geng Tongmin (耿同敏), aged 43, deputy general manager, chief engineer and a senior engineer. Ms. Geng consecutively held offices as a deputy director of the Design Scientific Research Institute, a deputy chief engineer and chief engineer of Zhengzhou Gas Group and deputy chairman of Henan Province Zhong Yuan Natural Gas Heat Engineering Supervising Company Limited (河南省中原燃氣熱力工程監理有限公司). Ms. Geng was appointed as a deputy general manager of the Company and a deputy general manager and chief engineer of the Company in August 2004 and October 2007 respectively. She has been chairperson of Zhengran Jinxiang since August 2009, and chief engineer of Zhengzhou China Resources Gas since December 2009.

Mr. Sun Xianzhong (孫獻忠), aged 41, secretary of the Board. Mr. Sun was the head of operation division, officer and property management manager of Zhengzhou High Land City Construction Development Company, Zhengzhou High and Innovative Technology Development Zone. He joined the Company in 2000 and was the Company's previous securities investment deputy division head, Hong Kong branch officer and securities investment division head. Mr. Sun was an assistant to the general manager of the Company from March 2006 to October 2007.

Ms. Shang Yuqiu (尚玉秋), aged 42, chief economist and senior economist. From September 1997 to October 2003, Ms. Shang consecutively held offices as the deputy head of the corporate management office of the Company, and the deputy head of the corporate management department and the deputy chief economist of Zhengzhou Gas Group. From October 2003 to June 2007, she worked successively as the head of the operation management department of the Company and the secretary of the Second Branch of Natural Gas Company. From June 2007 to October 2007, she was the chief economist of Nanyang Zhengran Gas Co., Ltd. (南陽鄭燃燃氣有限公司). In October 2007, Ms. Shang was appointed as the chief economist of the Company. She is currently also a supervisor of Dengfeng Zhengran Gas Company Limited, a director of Nanyang Zhengran Gas Co., Ltd., Zhengzhou Gas Design Development Company Limited and the Zhengzhou Aerial Port Area Gas Company Limited (鄭州航空港區燃氣有限公司).

Mr. Li Weimin (李為民), aged 42, is the deputy general manager and a senior engineer. He was the deputy head of the technology and equipment office of Zhengzhou Municipal Natural Gas Corporation in 1997 and the general manager of Zhengzhou Gas Group LPG Co., Ltd. in 2003. He was appointed as the chief economist of the Company in October 2005. In October 2007, he was appointed as the assistant to the general manager of the Company, and the chairman of Dengfeng Zhengran Gas Company Limited, a subsidiary of the Company. He was appointed as the deputy general manager of the Company in March 2010.

Mr. Shi Shufang (司書方), aged 53, deputy general manager. Mr. Shi was the deputy head and head of Factory No. 2 of Xinhua (新華二廠) from 1981 to 1987; the head of gas station and business division of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1998; the head of business division of Zhengzhou Municipal Gas Company Limited from 1998 to 2000; and the manager of second branch of the Company's Natural Gas Company from 2000 to 2007. Mr. Shi was appointed as the assistant to general manager and the manager of the natural gas sales branch of the Company in October 2007. Mr. Shi has been deputy general manager of the Company and chairman of the Zhengzhou Aerial Port Area Gas Company Limited since March 2009.

Mr. Huo Wencai (霍文才), aged 46, assistant to the general manager. He was transferred from the Chinese People's Armed Police Forces to the enterprise administration department of the former Zhengzhou Municipal Gas Company Limited in August 1998. From October 2000 to August 2002, Mr. Huo was the head of the secretary office of the Company. Mr. Huo was the manager of first branch of Zhengzhou Gas Company Limited's Natural Gas Company from August 2002 to October 2007. Mr. Huo was appointed as the assistant to general manager of the Company and the chairman of Zhengzhou Gas Engineering and Construction Company Limited in October 2007.

Company Secretary

Mr. Wong Cheuk Lam, Raymond (黃焯琳), aged 41, is the company secretary and chief financial officer of the Company. Mr. Wong holds a master degree in accountancy. Prior to joining the Company in February 2003, he worked in accounting and finance positions for the merchant bank of Sakura Bank of Japan (Sakura Asia Finance Limited) and BOCI Securities Company Limited. Mr. Wong has over thirteen years of experience in accounting and finance. He is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Wong was appointed as the chief financial officer and financial controller of the Company in July 2005 and October 2007 respectively.

The Board is pleased to present its report together with the audited financial statements of the Company and the Group for the year ended 31 December 2009.

Principal activities

The principal activities of the Company and its subsidiaries are the sales of natural gas, pressure control equipments and gas appliances to customers and the construction of gas pipelines and the provision of repair and maintenance services of gas pipelines to local customers.

There were no significant changes in the nature of the Group's principal activities during the Year.

Segment information

The segment information of the Group during the Year is set out in note 4 to the financial statement. No geographical segment analysis is shown as the Group's operating business is mainly carried out in Zhengzhou, Henan Province, the PRC.

Results and dividends

The Group's profit for the year ended 31 December 2009 and financial position of the Company and the Group at that date are set out in the financial statements on pages 46 to 113.

The Directors recommended the payment of a final dividend of RMB0.1626 per ordinary share for year ended 31 December 2009 to shareholders whose names appear in the register of members of the Company on 5 May 2010. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for year ended 31 December 2009. Further details of the proposed final dividend are set out in note 11 to the financial statements.

Summary financial information

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years prepared on the basis set out in the note below is as follows:

RESULTS

	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,244,420**	1,028,846	862,161	731,637	620,478
Cost of sales	**(866,065)**	(717,039)	(563,562)	(489,986)	(410,876)
Gross Profit	**378,355**	311,807	298,599	241,651	209,602
Other income and gains	**6,446**	6,187	4,199	3,555	2,334
Selling and distribution costs	**(48,779)**	(41,082)	(35,338)	(33,294)	(26,860)
Administrative expenses	**(78,799)**	(67,502)	(60,963)	(66,335)	(53,880)
Other expenses	**(16,597)**	(5,714)	(10,092)	(10,407)	(4,886)
Financial expenses	**(1,662)**	–	–	–	–
Share of profit of an associate	**4,764**	–	–	–	–
Profit before tax	**243,728**	203,696	196,405	135,170	126,310
Income Tax Expense	**(63,269)**	(51,528)	(66,722)	(9,513)	(16,560)
Profit for the year	**180,459**	152,168	129,683	125,657	109,750
Consolidated total revenue for the year	**180,459**	152,168	129,683	125,657	109,750
Attributable to:					
Owners of the Company	**178,451**	151,216	128,462	111,485	93,400
Minority interests	**2,008**	952	1,221	14,172	16,350
	180,459	152,168	129,683	125,657	109,750
Earnings per share attributable to ordinary equity holders of the Company – Basic (RMB)	**1.426**	1.208	1.026	0.891	0.746

Summary financial information (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Total assets	**1,589,309**	1,374,925	1,105,482	945,660	750,572
Total liabilities	**719,955**	590,062	441,374	374,832	277,765
Minority interests	**23,089**	3,913	4,088	3,602	27,945
Net assets	**869,354**	784,863	664,108	570,828	472,807

Note:

The consolidated results and financial position of the Group for the years ended 31 December 2005, 2006, 2007 and 2008 have been extracted from the 2005, 2006, 2007 and 2008's annual reports of the Company, while those for the year ended 31 December 2009 were prepared based on the consolidated income statement as set out on page 46 of the financial statements. The summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements, respectively.

Share capital

There were no movements in either the Company's registered or issued share capital during the year ended 31 December 2009; however, every ten issued shares have been consolidated into one consolidated share, whose details are set out in note 29 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Purchase, sale or redemption of the Company's listed securities

During the Year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Reserves

Details of movements to the reserves of the Company and the Group during the Year are set out in the statement of changes in equity on pages 48 and 99 to the financial statements.

Distributable reserves

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB367,356,000, of which approximately RMB20,349,000 has been proposed as a final dividend for the year, and approximately RMB20,433,000 has been proposed to be transferred to be general surplus reserve. In addition, RMB101,026,000 in the Company's share premium account may be distributed as bonus shares.

Major customers and suppliers

The Group's aggregate revenue attributable to its five largest customers did not exceed 30% of the Group's total revenue during the year ended 31 December 2009; accordingly, a corresponding analysis of major customers is not presented.

The Group's aggregate purchases from its five largest suppliers accounted for approximately 92% (2008: 89%.) of the Group's total purchases during the year ended 31 December 2009, and the purchases from the largest supplier included therein amounted to 67% (2008: 54%).

None of the Directors and Supervisors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's five largest suppliers and customers.

Connected transactions

Details of the connected transactions of the Group during the year ended 31 December 2009, disclosed according to International Accounting Standards, are set out in note 34 to the financial statements.

Ernst & Young, the auditors of the Company, had confirmed to the Board that during the year ended 31 December 2009 the continuing connected transactions of the Company were:

(1) approved by the Board or the Independent Board Committee;

(2) entered into in accordance with the relevant agreements governing the transactions; and

(3) within the relevant caps applicable to such transactions as disclosed in the previous announcements.

Directors and Supervisors

The Directors and Supervisors during the Year were:

Executive Directors:

Mr. Yan Guoqi *(Chairman)*
Mr. Li Jinlu
Mr. Li Hongwei

Non-executive Directors:

Mr. Song Jinhui
Mr. Zhang Wushan
Mr. Ding Ping
Mr. Hao Ganjun (retired on 8 April 2009)
Mr. Liu Jianwen (retired as independent non-executive Director and appointed as non-executive Director on 8 April 2009)

Independent Non-executive Directors:

Mr. Zhang Yichun (retired on 8 April 2009)
Ms. Yu Shulian (retired on 8 April 2009)
Mr. Liu Jianwen (retired on 8 April 2009)
Mr. Yu Jinsong (appointed on 8 April 2009)
Mr. Zhang Jianqing (appointed on 8 April 2009)
Ms. Wang Xiuli (appointed on 8 April 2009)
Mr. Wong Ping

Supervisors:

Ms. Bao Hongwei
Mr. Chen Kun
Mr. Zhao Ruibao
Ms. Li Ying (appointed on 13 October 2009)
Ms. Niu Minghua (retired on 8 April 2009)
Ms. Qiao Hong (appointed on 8 April 2009 and resigned on 13 October 2009)
Ms. Wang Xiaohua

Independent Supervisors:

Mr. Zhang Lixing (appointed on 13 October 2009)
Mr. Xie Songwang (appointed on 13 October 2009)
Mr. Cai Yuming (resigned on 13 October 2009)
Mr. Yang Guirong (resigned on 13 October 2009)

In accordance with articles 99 and 123 of the Company's articles of association, the Directors and Supervisors are appointed for a period of three years and are subject to re-election on the expiry of their appointment.

Profiles of Directors, Supervisors and senior management

Profiles of Directors, Supervisors and senior management of the Company are set out under the "Profiles of Directors, Supervisors and senior management" section of the annual report.

Confirmation of independence of independent non-executive Directors

The Company confirmed that it has received from each of the non-executive Directors an annual confirmation of her or his independence and considers, based on the confirmations received, the independent non-executive Directors remain independent.

Directors' and Supervisors' service contracts

Each of the Directors and Supervisors has entered into a service contract with the Company with effect from the date of appointment or re-election of the respective Directors and Supervisors for a term of three years.

None of the Directors and Supervisors has entered into any service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisor's remuneration

Directors' and Supervisors' fees shall be approved by the shareholders of the Company at general meetings. Other emoluments are determined by the Remuneration and Appraisal Committee of the Company and approved by the Board with reference to the Directors' and Supervisors' duties, responsibilities and performance and the results of the Group.

Directors' and Supervisors' interests in contracts

None of the Directors or Supervisors had a material interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

Directors' and Supervisors' rights to acquire shares or debentures

At no time during the year ended 31 December 2009 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisor or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other entities.

Interests of Directors and Supervisors in competing business

During the Year and as at the date of this annual report, none of the Directors or the Supervisors had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

Directors', Supervisors' and chief executives' interests in shares and underlying shares or debentures

As at 31 December 2009, none of the Directors, Supervisors or chief executives of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571), the "SFO"), which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

Disclosure under the SFO and substantial shareholders

As at 31 December 2009, so far as the Directors are aware, the person (not being a Director or Supervisor or chief executive of the Company) or companies who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or which will be required pursuant to section 336 of the SFO to be recorded in the register of the Company or who was/were directly or indirectly interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity/ Nature of Interest	Number of H Shares held	Approximate % of beneficial interests in H Shares	Number of Domestic Shares held	Approximate % of beneficial interest in Domestic Shares	Approximate % of the total registered share capital of the Company
Zhengzhou Gas Group Co., Ltd (鄭州燃氣集團)	Beneficial owner	–	–	54,041,510	77.11%	43.18%
Beijing Jinqiiyuan Investment Co., Ltd. (formerly known as Zhengzhou Qiyuan Investment Consultancy Co., Ltd) *(note 1)* 北京金啟元投資管理有限公司 (前稱:鄭州啟元投資諮詢有限公司)	Beneficial owner	–	–	11,550,000	16.48%	9.23%
Beijing Crystal Stone Investment Company Limited *(note 2)* (北京水晶岩投資管理有限公司)	Corporate	–	–	11,550,000	16.48%	9.23%
Liu Liangkun *(note 3)* (劉良昆)	Corporate	–	–	11,550,000	16.48%	9.23%

Disclosure under the SFO and substantial shareholders (continued)

Notes:

1. As at 31 December 2009, Beijing Jinqiyuan Investment Co., Ltd. ("Beijing Jinqiyuan") held 11,550,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interests in Domestic Shares. However, pursuant to the Listing Rules, Beijing Jinqiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Beijing Jinqiyuan represented only 9.23% of the total registered share capital of the Company.

2. As at 31 December 2009, Beijing Crystal Stone Investment Company Limited ("Beijing Crystal Stone") was deemed, or taken to be, interested in 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in Domestic Shares, as it owned beneficially 37.39% of the registered capital of Beijing Jinqiyuan (which held 11,550,000 Domestic Shares). However, pursuant to the Listing Rules, Beijing Crystal Stone was not a substantial shareholder of the Company because the Domestic Shares held by Beijing Crystal Stone represented only 9.23% of the total registered share capital of the Company.

3. As at 31 December 2009, Mr.Liu Liangkun was deemed, or taken to be, interested in 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in Domestic Shares, as he owned beneficially 33.75% of the registered capital of Beijing Crystal Stone (which was deemed, or taken to be, interested in 11,550,000 Domestic Shares). However, pursuant to the Listing Rules, Mr. Liu Liangkun was not a substantial shareholder of the Company because the Domestic Shares in which Mr. Liu Liangkun was deemed, or taken to be, interested in represented only 9.23% of the total registered share capital of the Company.

As at 31 December 2009, so far as the Directors are aware, the person (not being a Director or Supervisor or chief executive of the Company) or companies who was/were directly or indirectly interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group (excluding the Company) were as follows:

Name of subsidiary of the Company	Name of shareholder of the subsidiary of the Company	Nominal value of registered and fully paid-up share capital held by the subsidiary of the Company	Approximate % of shareholding of the subsidiary of the Company
Dengfeng Zhengran Gas Co., Ltd (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co,. Ltd (鄭州燃氣工程建設有限公司)	RMB23,500,000	78%

Save as disclosed above, the Directors were not aware of any other person (not being a Director or Supervisor or chief executive of the Company) or companies who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was/were interested in 10% or more of the nominal value of any classes of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any members of the Group (excluding the Company).

Directors' and Supervisors' rights to acquire H Shares

Save as disclosed above, during the year ended 31 December 2009, none of the Directors, Supervisors or chief executive of the Company was granted options to subscribe for the H Shares of the Company. During the year ended 31 December 2009, none of the Directors, Supervisors or chief executive of the Company, or their respective spouses or minor children had any rights to acquire H Shares of the Company or exercised any such rights.

Board practice and procedures

The Board held the opinion that, the Company has complied with the requirements of board practice and procedures as set out in the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the Year.

Code of conduct regarding securities transactions by Directors

During this Year, the Company has adopted a code of conduct regarding securities transactions by Directors with terms no less exacting than the required standard of dealings by Directors set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiries with all Directors, is not aware of any non-compliance by any Director with the required standard of dealings and code of conduct regarding securities transactions by the Directors.

Competing interests

None of the Directors, the initial management shareholders of the Company or their respective associates (as defined in the Listing Rules) had any direct or indirect interests in a business which competes or likely to compete with that of the Company.

Sufficiency of public float

According to the public information available to the Company and within the knowledge of the Directors, the Company has maintained the public float required by Listing Rules as at the date of this report.

Audit Committee

The Company established an audit committee ("Audit Committee") on 30 September 2002 in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duty of the Audit Committee is to review the financial reporting procedures and internal control system of the Group.

The Audit Committee currently comprises of three members, namely Ms. Wang Xiuli and Mr. Zhang Jianqing, both being the independent non-executive Directors, and Mr. Zhang Wushan, a non-executive Director. Ms. Wang Xiuli is the chairperson of the Audit Committee.

The Audit Committee has reviewed the audited consolidated results of the Group during the year ended 31 December 2009.

Code on Corporate Governance Practices

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in the Listing Rules during the year ended 31 December 2009.

Post balance sheet events

Details of the material post balance sheet events of the Group are set out in note 38 to the financial statements.

Statement of no change of auditors

The Board confirmed that there has been no change of auditors of the Company in any of the preceding three years from the year ended 31 December 2009.

Auditors

Ernst & Young will retire at the conclusion of the forthcoming annual general meeting of the Company. On 30 March 2010, the Board has resolved to proposed the appointment of Deloitte Touche Tohmatsu as the new auditor of the Group to fill the vacancy following the retirement of Ernst & Young. Accordingly, a resolution for appointing Deloitte Touche Tohmatsu as the auditor of the Group will be proposed at the forthcoming annual general meeting of the Company.

BY THE ORDER OF THE BOARD
Zhengzhou Gas Company Limited

Yan Guoqi
Chairman

Zhengzhou, Henan Province, the PRC
30 March 2010

In order to improve the management of conflicts of interests of the Group, the Board of the Company established this committee which comprises of all independent non-executive Directors. The committee is responsible for reviewing the transactions where conflicts of interests may arise between the Group and its connected persons (including Zhengzhou Gas Group Company Limited (the controlling shareholder of the Company) and its associates), and making decisions collectively on behalf of the Board in respect of the transactions contemplated. In addition, the committee will also make decisions on behalf of the Board to exercise the investment option granted by the Zhengzhou Gas Group to the Company, according to the agreement providing the non-competition undertaking and investment option.

Connected transactions

Details of the Group's connected transactions during the year ended 31 December 2009, which were disclosed adherent to the IRS, has been incorporated in note 34 to the financial statements. The Committee held three meetings during the Year and reviewed the connected transactions between the Group and Zhengzhou Gas Group, the controlling shareholder of the Company, including agreements on trademark transfer and property management service. Such transactions were considered to be connected transactions exempted from reporting, announcement and approval by independent shareholders under the Listing Rules. During the Year, the committee has also reviewed the following continuing connected transactions between the Group and the Zhengzhou Gas Group:

Land use right lease agreements and property lease agreement

On 5 November 2007 when the existing property lease agreement expired, the Group and the Zhengzhou Gas Group entered into a renewed property lease agreement (the "Renewed Property Lease Agreement") pursuant to which the Zhengzhou Gas Group as the landlord had agreed to lease the renewed occupation rights in the properties with a total gross floor area of 20,945.86 sq.m. to the Group for a duration of three years commencing from 1 November 2007 to 31 October 2010 (with an option to renew exercisable by the Group) at the aggregate rental of RMB8,389,642.80 per annum.

In 2008, the Company leased several plots of land from Zhengzhou Gas Group under the land use rights lease agreements dated 16 January 2002 as supplemented by the First and the Second Supplemental Agreements dated 30 September 2002 and 4 January 2007 respectively ("Land Use Rights Lease Agreements"), and the new land use rights lease agreement dated 26 May 2005 ("New Land Use Rights Lease Agreement").

On 6 June 2008, the Company entered into the Third Supplemental Agreement with Zhengzhou Gas Group, pursuant to which the parties thereto agreed to adjust the annual rentals of the land use rights leased to the Company under the Land Use Rights Lease Agreements as a result of the acquisition of the land assets by the Company pursuant to the Acquisition Agreement entered into between the Company as purchaser and Zhengzhou Gas Group as vendor dated 30 November 2007 for the purchase of the land assets and other assets and regular rental review.

Zhengzhou Gas Group is the controlling shareholder of the Company, holding an approximately 43.18% equity interest in the Company's registered share capital. By virtue of Zhengzhou Gas Group's equity interest in the Company, Zhengzhou Gas Group is considered connected to the Company under the Listing Rules. As a result, the transactions under the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement should be treated as continuing connected transactions.

Further, the Company and Zhengzhou Gas Group also entered into the New Land Use Rights Lease Agreement (Renewal) on 6 June 2008, pursuant to which Zhengzhou Gas Group agreed to continue to lease to the Company the land use right in relation to the land located at No. 108, Jingguang Road South, Er Qi District, Zhengzhou City, Henan Province for a period commencing from 1 June 2008 to 31 May 2011 and such term is renewable subject to the agreement by the parties thereto. The annual rental under the New Land Use Rights Lease Agreement (Renewal) is RMB92,738.4 (approximately HK$104,238). Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the Renewed Property Lease Agreement, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement and the New Land Use Rights Lease Agreement (Renewal) constitute a series of transactions and accordingly the annual rentals under the Renewed Property Lease Agreement, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement and the New Land Use Rights Lease Agreement (Renewal) are liable to be aggregated.

Pursuant to Rule 14A.34(1) of the Listing Rules, each of the percentage ratios (other than the profits ratio) as calculated based on the aggregate rentals under the Renewed Property Lease Agreements, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement, and the New Land Use Rights Lease Agreement (Renewal) is less than 2.5% on an annual basis. Therefore, no independent Shareholders' approval is required, and the transactions are only subject to reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules. The details of such transactions are set out in the announcement of the Company dated 11 June 2008.

The committee confirmed that during the Year all the connected transactions of the Group, including the above mentioned continuing connected transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or, where there are no sufficient comparables, on terms no less favourable than the terms the Company could have obtained from an independent third party; and

3. in accordance with the relevant agreements governing the transactions and on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Non-competition undertaking and investment option

During the Relevant Period, the committee is not aware of the existence of any transactions in relation to the agreement of non-competition undertaking and investment option dated 16 April 2006 between the Company and the Zhengzhou Gas Group.

As at the date of this annual report, the Committee consists of all independent non-executive Directors, namely:

Mr. Yu Jinsong *(Chairman)*
Mr. Zhang Jianqing
Ms. Wang Xiuli
Mr. Wong Ping

30 March 2010

The Company has always endeavoured to strengthen its corporate governance. Through strengthening the functions of committees under the Board and promoting the formation of internal control systems, the Company has incorporated the core value of corporate governance, such as adopting an open, reasonable and restrictive decision-making process and taking into account the Company's and the shareholders' interests as a whole in the process of decision-making etc., into the Company's daily operation. The Company believes that the improvement of corporate governance level and the establishment of the accountability-based corporate culture will help to maximize its shareholders' interests.

Corporate Governance Practices

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during 2009.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules so that securities transactions by the Directors have to be carried out according to the Model Code. Having made specific enquiries of all Directors, all the Directors confirmed that they had complied with the relevant provisions of the Model Code during 2009.

The interests in the Company's securities held by the Directors as at 31 December 2009 and the extent of compliance with the Model Code have been disclosed in the Report of the Directors of this annual report.

The Board

Composition of the Board

As at the date of this annual report, the Board comprises the following Directors, including (i) executive Directors: Mr. Yan Guoqi (Chairman), Mr. Li Jinlu and Mr. Li Hongwei; (ii) non-executive Directors: Mr. Song Jinhui, Mr. Zhang Wushan, Mr. Ding Ping and Mr. Liu Jianwen; and (iii) independent non-executive Directors: Mr. Yu Jinsong, Mr. Zhang Jianqing, Ms. Wang Xiuli and Mr. Wong Ping.

Biographical details of the Directors are set out in the section "Profiles of Directors, Supervisors and Senior Management" of this annual report. All of the executive Directors of the Company have sufficient requisite experience essential for them to perform their duties efficiently.

The Company has appointed four independent non-executive Directors, at least one of them has appropriate accounting expertise, who can help the management to formulate the Group's development strategies, ensure the Board preparing its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintaining appropriate systems to protect the interests of shareholders and the Company. The Board has received the annual written confirmation in respect of their independence from each of the independent non-executive Directors, and believes that their independence is in compliance with the Listing Rules as at the date of the Company's 2009 annual report.

The Board (continued)

Operation of the Board

Before each Board meeting, the Directors are provided with a detailed agenda, sufficient relevant information and a reasonable notice period by the Company, so as to enable the Directors to attend the Board meeting and make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If the material interest of any Director or any of his/her associate is involved in any resolution of the Board meeting, such Director must abstain from voting and should not be counted in the quorum of the meeting.

All Directors are free to access all the corporate information for the purpose of discharging their duties and responsibilities as directors. The Directors may seek independent professional advice, if it is deemed necessary, at the Company's expenses. In addition, all Directors may have unrestricted access to the senior management of the Company.

Matters that need to be determined or considered by the Board include overall group strategies, substantial acquisitions and disposals, annual budget, annual and interim results, recommendations on the appointment or re-election of directors, distribution of dividends and other substantial operating and financial matters. General daily and routine operating decision-makings are handled by the management.

In 2009, the Board held a total of 11 meetings. The attendance record of each Director is set out below:

Directors	Attendance	Number of Board meetings held during the term of the individual Director in 2009	Attendance rate	Notes
Executive Directors				
Yan Guoqi	11	11	100%	
Li Jinlu	11	11	100%	
Li Hongwei	11	11	100%	
Non-executive Directors				
Song Jinhui	11	11	100%	
Zhang Wushan	11	11	100%	
Ding Ping	11	11	100%	
Hao Ganjun	3	3	100%	Retired on 8 April 2009
Liu Jianwen	11	11	100%	Retired as independent non-executive Director and appointed as non-executive Director on 8 April 2009
Independent Non-executive Directors				
Zhang Yichun	3	3	100%	Retired on 8 April 2009
Yu Shulian	3	3	100%	Retired on 8 April 2009
Yu Jinsong	8	8	100%	Appointed on 8 April 2009
Zhang Jianqing	8	8	100%	Appointed on 8 April 2009
Wang Xiuli	8	8	100%	Appointed on 8 April 2009
Wong Ping	11	11	100%	

The Board (continued)

The Board has established subordinate committees in relation to corporate governance, namely, the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Independent Board Committee, which are responsible for supervising and controlling respective aspects of the Company. Each committee has its own written terms of reference which clearly defines its authorities and duties.

Audit Committee

The Company established its Audit Committee on 30 September 2002 with terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control system of the Company and providing recommendations to the Board.

The Audit Committee comprises three members, namely, Mr. Zhang Wushan, a non-executive Director; Mr. Zhang Jianqing and Ms. Wang Xiuli, both are independent non-executive Directors. Ms. Wang Xiuli is the chairperson of the Audit Committee.

In 2009, the Audit Committee held a total of four meetings, at which it reviewed, together with the senior management and the internal and external auditors of the Company, the internal and independent audit results, the accounting principles and practices adopted by the Group, the listing and other relevant regulations, and discussed the audit and internal control system, and financial reporting matters (such as recommending the Board to approve the interim and annual results of the Company).

The Audit Committee reports to the Board after each meeting and suggests matters which need close attention of the Board, and reports any matters which it considers an action or improvement is necessary and makes relevant recommendations.

The attendance record of each Audit Committee member is set out below:

Committee member	Attendance	Number of Board meetings held during the term of the individual committee member in 2009	Attendance rate	Notes
Yu Shulian	n/a	n/a	100%	Retired on 8 April 2009
Zhang Yichun	n/a	n/a	100%	Retired on 8 April 2009
Zhang Wushan	4	4	100%	
Zhang Jianqing	4	4	100%	Appointed on 8 April 2009
Wang Xiuli	4	4	100%	Appointed on 8 April 2009

Remuneration and Appraisal Committee

The Company established its Remuneration and Appraisal Committee in 2002, which is mainly responsible for providing recommendations to the Board in relation to the remuneration policies and structure of the Directors and the senior management.

The Remuneration and Appraisal Committee comprises five members, including Mr. Yan Guoqi, Mr. Li Jinlu, Ms. Wang Xiuli, Mr. Yu Jinsong, and Mr. Zhang Jianqing. Most of them are independent non-executive Director. The Chairman of the Committee is Mr. Zhang Jianqing.

In 2009, the Remuneration and Appraisal Committee held one meeting. At the meeting, the Committee reviewed the incentive bonus given to the Directors and senior management in 2009. The Committee concluded that the amount of the incentive bonus given to each Director and senior management in 2009 was reasonable after taking into account the overall financial performance of the Company and individual performance of each Director and member of the senior management.

The attendance record of each member of the Remuneration and Appraisal Committee is set out below:

Committee member	Attendance	Number of Board meetings held during the term of the individual committee member in 2009	Attendance rate	Notes
Yan Guoqi	1	1	100%	
Song Jinhui	n/a	n/a	n/a	Resigned on 8 April 2009
Li Jinlu	1	1	100%	Appointed on 8 April 2009
Zhang Yichun	n/a	n/a	n/a	Retired on 8 April 2009
Liu Jianwen	n/a	n/a	n/a	Retired as independent non-executive Director and appointed as non-executive Director on 8 April 2009, therefore resigned as a member of Remuneration and Appraisal Committee
Yu Shulian	n/a	n/a	n/a	Retired on 8 April 2009
Yu Jinsong	1	1	100%	Appointed on 8 April 2009
Zhang Jianqing	1	1	100%	Appointed on 8 April 2009
Wang Xiuli	1	1	100%	Appointed on 8 April 2009

Nomination Committee

The Nomination Committee of the Company is mainly responsible for making recommendations to the Board in relation to appointment of Directors and senior management.

The Nomination Committee comprises three members, including Mr. Yan Guoqi, Mr. Yu Jinsong and Mr. Zhang Jianqing. Most of them are independent non-executive Directors and the Chairman of the Committee is Mr. Yu Jinsong.

In 2009, the Nomination Committee held four meetings, for the purpose of nominating new Directors and senior management officers of the Company mainly based on criteria such as educational background, working experience and the talent needed by the Company. The Committee had assessed four candidates for senior management officers during the year and formed an opinion on such nomination.

The attendance record of each Nomination Committee member is set out below:

Committee member	Attendance	Number of Board meetings held during the term of the individual committee member in 2009	Attendance rate	Notes
Yan Guoqi	4	4	100%	
Zhang Yichun	1	1	100%	Retired on 8 April 2009
Liu Jianwen	1	1	100%	Retired as independent non-executive Director and appointed as non-executive Director on 8 April 2009, therefore resigned as a member of the Nomination Committee on 8 April 2009
Yu Shulian	1	1	100%	Resigned on 8 April 2009
Yu Jinsong	3	3	100%	Appointed on 8 April 2009
Zhang Jianqing	3	3	100%	Appointed on 8 April 2009

Independent Board Committee

The Company established the Independent Board Committee in 2007, responsible for reviewing the transactions where conflicts of interests may arise between the Group and its connected persons (including the Zhengzhou Gas Group Company Limited and its associates) and making collective decisions on behalf of the Board in respect of the contemplated transactions among the Group, its connected persons and their associates where conflicts of interests may arise. The Committee also makes collective decisions on behalf of the Board in respect of the investment option.

The Independent Board Committee comprises four members. The Chairman of the Committee is Mr. Yu Jinsong, an independent non-executive Director; other members are Mr. Zhang Jianqing, Ms. Wang Xiuli and Mr. Wong Ping, all of whom are independent non-executive Directors.

Independent Board Committee (continued)

The Independent Board Committee held three meetings in 2009. It reviewed and approved connected transactions concerning trademark transfer and property management service agreement and reviewed the continuing connected transactions of the Company.

The attendance record of each Independent Board Committee member is set out below:

Committee member	Attendance	Number of Board meetings held during the term of the individual committee member in 2009	Attendance rate	Notes
Liu Jianwen	n/a	n/a	n/a	Retired as independent non-executive Director and appointed as non-executive Director on 8 April 2009, therefore resigned as a member of the Independent Board Committee on 8 April 2009
Zhang Yichun	n/a	n/a	n/a	Retired on 8 April 2009
Yu Shulian	n/a	n/a	n/a	Retired on 8 April 2009
Yu Jinsong	3	3	100%	Appointed on 8 April 2009
Zhang Jianqing	3	3	100%	Appointed on 8 April 2009
Wang Xiuli	3	3	100%	Appointed on 8 April 2009
Wong Ping	3	3	100%	

Chairman and General Manager

During the year ended 31 December 2009, the posts of Chairman and General Manager have been held by different persons. The separation of the roles and functions of the Chairman and the General Manager ensures a clear distinction in the Chairman's responsibility to manage the Board and the General Manager's responsibility to manage the Company's business activities.

Term of the Directors

The Directors (including independent non-executive Directors) have an appointment term of three years, and are subject to re-election according to the articles of association of the Company.

Remuneration of the Auditors

For the year ended 31 December 2009, the Audit Committee of the Company had reviewed the performance of Messrs. Ernst & Young ("Ernst & Young") as the auditors of the Company. For the year ended 31 December 2009, the Company had paid auditing fees of approximately RMB2,468,000 (2008: approximately RMB4,853,000) to Ernst & Young.

Moreover, the Company also set up the "Management System for Outsourcing Non-Audit Services", which further ensures the independence of external auditors who are engaged to audit the Company's accounts. During the Year, Ernst & Young did not provide any non-audit services to the Group.

Responsibility of Preparation of the Accounts

The Directors acknowledge their responsibility of preparing the accounts of the Company. As at 31 December 2009, the Directors are not aware of any material uncertain events or circumstances which may have a significant impact on the Company's ability to operate as an on-going concern. Accordingly, the Directors have prepared the accounts of the Company on an on-going concern basis. The responsibility of the auditors with respect to financial reporting are set out in the Independent Auditors' Report in this annual report.

Internal Control System

The Board conducts a review of the internal control systems of the Company every year in order to ensure their effectiveness and review its efficiency. The Board assesses the effectiveness of the internal control systems based on five criteria, including environment monitoring, risk assessment, activity supervision, information and communication, and continuous assessment of the procedures of the internal control systems. The Directors consider that the Company has implemented a series of procedures to safeguard the Company's assets against unauthorised use or misappropriation, maintain accounting records properly and ensure the reliability of financial information.

During the Year, the Company, based on the risk management result and equally relying on preventive control and detective control, made and amended 56 management systems and working standards, and improved controlling measures in respect of division of positions, authorized approval, meeting system, property protection, budget, operation analysis and performance evaluation. Moreover, the Company also made risk management system and further clarified and specified of division of duties, working process, manners and means of risk management.

During the Year, the Company made Implementation Measures of Information Reporting System, according to which information of the Company shall be analyzed, handled and disclosed. The Board is also of the view that the Company has already established effective channels for information communication and feedback, making it possible to deliver important information and feedback among the Company's various management levels, business units and business segments, and also among external investors, creditors, customers and regulatory bodies

In addition, the Company has also established an independent internal audit department to assist the management to conduct regular and ongoing supervision and inspection on the establishment and implementation of internal control process, so as to identify and solve any problems in a timely manner.

Investor Relations

The Company will meet with its shareholders and respond to their enquiries at the AGM. In addition, the Company communicates with media reporters, securities analysts, funds managers and investors on a regular basis and responds to their enquiries, so as to give them a clear picture of the Company's achievements in its business, management and other aspects.

ERNST & YOUNG
安 永

To the shareholders of Zhengzhou Gas Company Limited
(Established in the People's Republic of China with limited liability)

We have audited the financial statements of Zhengzhou Gas Company Limited set out on pages 46 to 113, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group’s profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

30 March 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**1,244,420**	1,028,846
Cost of sales		**(866,065)**	(717,039)
Gross profit		**378,355**	311,807
Other income and gains	5	**6,446**	6,187
Selling and distribution costs		**(48,779)**	(41,082)
Administrative expenses		**(78,799)**	(67,502)
Other expenses		**(16,597)**	(5,714)
Finance costs		**(1,662)**	–
Share of profit of an associate		**4,764**	–
PROFIT BEFORE TAX	6	**243,728**	203,696
Income tax expense	9	**(63,269)**	(51,528)
PROFIT FOR THE YEAR		**180,459**	152,168
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**180,459**	152,168
Attributable to:			
Owners of the Company		**178,451**	151,216
Minority interests		**2,008**	952
		180,459	152,168
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic			
– For profit for the year (RMB Yuan)		**1.426**	1.208

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**841,526**	666,115
Prepaid land lease payments	15	**112,584**	113,949
Interests in an associate	17	**32,863**	32,025
Deferred tax assets	18	**9,327**	7,398
Total non-current assets		**996,300**	819,487
CURRENT ASSETS			
Inventories	19	**18,367**	15,460
Construction work in progress	20	**933**	954
Trade and notes receivables	21	**161,379**	104,926
Prepayments, deposits and other receivables	22	**63,734**	40,536
Restricted cash deposits	23	**26,450**	25,250
Fixed deposits held at banks with maturity over three months	23	**30,000**	–
Cash and cash equivalents	23	**291,732**	368,169
Due from fellow subsidiaries	28	**414**	143
Total current assets		**593,009**	555,438
CURRENT LIABILITIES			
Trade payables	24	**83,517**	56,174
Other payables and accruals	25	**163,357**	123,594
Advance payments received	20	**447,502**	356,468
Interest-bearing bank borrowings	26	**–**	40,000
Tax payable		**25,135**	13,826
Due to a related company	28	**444**	–
Total current liabilities		**719,955**	590,062
NET CURRENT LIABILITIES		**(126,946)**	(34,624)
NET ASSETS		**869,354**	784,863
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**125,150**	125,150
Reserves	30	**721,115**	655,800
		846,265	780,950
Minority interests		**23,089**	3,913
Total equity		**869,354**	784,863

Yan Guoqi
Chairman

Li Jinlu
Director

	Attributable to owners of the Company								
	Issued capital RMB'000 (note 29)	Share premium account RMB'000	Statutory surplus reserve RMB'000 (note 30)	General surplus reserve RMB'000 (note 30)	Retained profits RMB'000 (note 30)	Reserve arising from acquisition of a minority interest RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	125,150	101,026	121,284	41,456	242,954	28,150	660,020	4,088	664,108
Profit for the year	–	–	–	–	151,216	–	151,216	952	152,168
Final 2007 dividend	–	–	–	–	(30,286)	–	(30,286)	–	(30,286)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	(1,127)	(1,127)
Transfer from retained profits	–	–	13,009	10,126	(23,135)	–	–	–	–
At 31 December 2008	125,150	101,026*	134,293*	51,582*	340,749*	28,150*	780,950	3,913	784,863

	Note	Attributable to owners of the Company								
	Note	Issued capital RMB'000 (note 29)	Share premium account RMB'000	Statutory surplus reserve RMB'000 (note 30)	General surplus reserve RMB'000 (note 30)	Retained profits RMB'000 (note 30)	Reserve arising from acquisition of a minority interest RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2009		**125,150**	**101,026**	**134,293**	**51,582**	**340,749**	**28,150**	**780,950**	**3,913**	**784,863**
Profit for the year		**–**	**–**	**–**	**–**	**178,451**	**–**	**178,451**	**2,008**	**180,459**
Cash received from a minority shareholder for establishment of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18,000**	**18,000**
Final 2008 dividend	11	**–**	**–**	**–**	**–**	**(13,016)**	**–**	**(13,016)**	**–**	**(13,016)**
Special dividend	11	**–**	**–**	**–**	**–**	**(100,120)**	**–**	**(100,120)**	**–**	**(100,120)**
Dividends paid to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(832)**	**(832)**
Transfer from retained profits		**–**	**–**	**20,433**	**13,009**	**(33,442)**	**–**	**–**	**–**	**–**
At 31 December 2009		**125,150**	**101,026***	**154,726***	**64,591***	**372,622***	**28,150***	**846,265**	**23,089**	**869,354**

* These reserve accounts comprise the consolidated reserves of RMB721,115,000 (2008: RMB655,800,000) in the consolidated statement of financial position.

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**243,728**	203,696
Adjustments for:			
Share of profit of an associate		**(4,764)**	–
Bank interest income	5, 6	**(4,013)**	(4,498)
Finance costs		**1,662**	–
Loss on disposal of items of property, plant and equipment	6	**–**	57
Impairment of property, plant and equipment	6	**9,908**	–
Depreciation	6	**43,322**	38,013
Amortisation of prepaid land lease payments	6	**2,288**	1,675
(Reversal)/impairment of trade receivables	6	**(45)**	542
Write-down of inventories to net realisable value	6	**925**	438
		293,011	239,923
Increase in inventories		**(3,832)**	(9,712)
Decrease in construction work in progress		**21**	561
(Increase)/decrease in trade and notes receivables		**(56,408)**	11,525
Increase in prepayments		**(23,055)**	(1,917)
Increase in deposits and other receivables		**2,833**	4,879
Increase in restricted cash deposits		**(1,200)**	(6,050)
Decrease in an amount due from the holding company		**–**	21
Increase in amounts due from fellow subsidiaries		**(271)**	(47)
Increase/(decrease) in trade payables		**27,307**	(10,852)
Increase in advanced payments received		**91,034**	100,758
Increase in other payables		**40,048**	35,931
(Decrease)/increase in accruals		**(415)**	120
Increase/(decrease) in amounts due to a fellow subsidiary		**444**	(5,746)
Increase in fixed deposits held at banks with maturity over three months		**(30,000)**	–
Cash generated from operations		**339,517**	359,394
Tax paid		**(53,889)**	(59,738)
Net cash flows from operating activities		**285,628**	299,656

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,587**	4,498
Dividend from an associate		**3,926**	–
Purchases of items of property, plant and equipment and prepaid land lease payments		**(230,598)**	(125,676)
Acquisition of an associate		**–**	(32,025)
Proceeds from disposal of items of property, plant and equipment		**–**	3
Net cash flows used in investing activities		**(223,085)**	(153,200)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from a minority shareholder for establishment of a subsidiary		**18,000**	–
New bank loans		**–**	40,000
Repayment of bank loans		**(40,000)**	–
Interest paid		**(1,662)**	–
Dividends paid		**(113,136)**	(30,286)
Dividends paid to minority shareholders		**(832)**	(1,127)
Amount paid for other financing activities		**(1,350)**	(5,965)
Net cash flows (used in)/from financing activities		**(138,980)**	2,622
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(76,437)**	149,078
Cash and cash equivalents at beginning of year		**368,169**	219,091
CASH AND CASH EQUIVALENTS AT END OF YEAR		**291,732**	368,169
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**348,182**	393,419
Less: Restricted cash deposits		**(26,450)**	(25,250)
Fixed deposits held at banks with maturity over three months		**(30,000)**	–
Cash and cash equivalents	23	**291,732**	368,169

The Group has established restricted cash deposits in a bank to secure natural gas supplies from its gas supplier.

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**828,385**	660,715
Prepaid land lease payments	15	**108,183**	109,351
Investments in subsidiaries	16	**84,350**	52,350
Interests in an associate	17	**32,025**	32,025
Deferred tax assets	18	**6,664**	5,107
Total non-current assets		**1,059,607**	859,548
CURRENT ASSETS			
Inventories	19	**6,685**	7,961
Trade and notes receivables	21	**160,576**	103,576
Prepayments, deposits and other receivables	22	**46,392**	32,901
Restricted cash deposits	23	**26,450**	25,250
Cash and cash equivalents	23	**161,236**	230,985
Due from a subsidiary	27	**38**	–
Due from a fellow subsidiary	28	**–**	7
Total current assets		**401,377**	400,680
CURRENT LIABILITIES			
Trade payables	24	**57,175**	31,405
Other payables and accruals	25	**154,063**	116,564
Advance payments received	20	**269,377**	217,274
Interest-bearing bank borrowings	26	**–**	40,000
Tax payable		**18,656**	3,191
Due to subsidiaries	27	**191,749**	172,185
Total current liabilities		**691,020**	580,619
NET CURRENT LIABILITIES		**(289,643)**	(179,939)
NET ASSETS		**769,964**	679,609
EQUITY			
Issued capital	29	**125,150**	125,150
Reserves	30	**644,814**	554,459
Total equity		**769,964**	679,609

Yan Guoqi
Chairman

Li Jinlu
Director

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM" of the "Stock Exchange") on 29 October 2002 and migrated to the Main Board of the Stock Exchange (the "Main Board") on 29 June 2007.

The Company and its subsidiaries are principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of renovation services of gas pipelines. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In the opinion of the directors, the holding company of the Group is Zhengzhou Gas Group Co., Ltd., which is established in the PRC, the ultimate holding company of the Group is Zhengzhou Municipal People's Government.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised to IFRSs for the first time for the current year's financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to IFRSs (May 2008)**	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

** The Group has adopted all amendments included in the Improvements to IFRSs issued in May 2008 except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary,* which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of IAS 1 (Revised) and IFRS 8, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements, and there have been no significant changes to the accounting policies applied in these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(a) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(b) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
IFRS 1 Amendments	Amendments to IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
IFRS 3 (Revised)	*Business Combinations* [1]
IFRS 9	*Financial Instruments* [6]
IAS 24 (Revised)	*Related Party Disclosures* [5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [5]
IFRIC 17	*Distributions of Non-cash Assets to Owners* [1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in profit or loss.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction work in progress, deferred tax assets, employee benefits assets, financial assets, investment properties, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.40%-3.84%
Machinery and equipment	3.43%-8.00%
Gas pipelines	4.00%
Office equipment	9.60%-32.00%
Motor vehicles	8.00%-32.00%
Computer software	20.00%
Leasehold improvement	Over the shorter of the lease terms and 20.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents gas station structures, machinery, gas pipelines and other property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets in the scope of IAS 39 are classified as loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, trade and notes receivables, an amount due from fellow subsidiary, and prepayments, deposits and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of comprehensive income. The loss arising from impairment is recognised in profit or loss in other operating expenses.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities include trade and other payables and amounts due to subsidiaries and fellow subsidiaries and interest-bearing bank borrowings. After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other expenses in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories, including construction materials, consumables, spare parts and natural gas are stated at the lower of cost and net realisable value. Costs which comprise all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present locations and conditions are calculated using the weighted average method. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

Construction work in progress

Short term construction work in progress represents the construction of gas pipeline work in progress, which is stated at cost less progress payments received and receivable.

Where construction costs incurred to date plus recognised profits exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress payments received and receivable on construction exceed the costs incurred to date, the surplus is shown in the statement of financial position as advance payments received.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Sale of natural gas, pressure control equipment and gas appliances

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(i) Natural gas – based on gas consumption derived from metre readings;

(ii) Pressure control equipment and gas appliances – upon completion of installation work or when the relevant equipment, materials and parts are delivered to customers and titles have passed.

Connection and construction of gas pipelines

Revenue in respect of the connection and construction of gas pipelines is recognised upon the completion of construction of pipelines for users and connection of such pipelines to the Company's existing gas pipeline network, which, is concurrent with the "fire ignition ceremony." The "fire ignition ceremony" is a final and essential step to ascertain that the gas pipeline built is functioning properly and is acceptable to users. The average time required for the Company to complete a gas pipeline construction project is approximately one month to six months.

Interest income

Revenue is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income

Rental income is accounted for on a time proportion basis over the lease terms.

Dividend income

Revenue is recognised when the Group's right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to profit or loss as incurred.

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre of the PRC are charged to profit or loss as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Revenue recognition

The Group recognised revenue in respect of the connection and construction of gas pipelines upon the completion of construction of pipelines for users and connection of such pipelines to the Company's existing gas pipeline network, which, is concurrent with the "fire ignition ceremony".

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2009 was RMB9,327,000 (2008: RMB7,398,000). Further details are given in note 18 to the financial statements.

(b) Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and bad and doubtful debt expenses/write-back in the period in which the estimate has been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

(d) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

Sales of natural gas and other related products	Sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipeline renovation work
Gas pipeline connection and construction	Connection and construction of gas pipelines

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets arising from unrealised intergroup profit as these assets are managed on a group basis.

As the chief operating decision maker of the Group considers that the Group's consolidated revenue and results are all attributable to the market in the PRC, the Group's consolidated assets are all located inside the PRC, no geographical information is presented.

4. OPERATING SEGMENT INFORMATION (continued)

	Sales of natural gas and other related products RMB'000	Gas pipeline connection and construction RMB'000	Total RMB'000
Year ended 31 December 2009			
Segment revenue:			
Sales to external customers	948,358	296,062	1,244,420
Intersegment sales	18,464	29,458	47,922
	966,822	325,520	1,292,342
Reconciliation:			
Elimination of intersegment sales			(47,922)
Revenue			1,244,420
Segment results	81,915	246,964	328,879
Reconciliation:			
Elimination of intersegment results			(4,347)
Bank interest income			4,013
Unallocated gains			1,100
Unallocated corporate expenses			(84,255)
Finance costs			(1,662)
Profit before tax			243,728
Segment assets	1,412,529	371,586	1,784,115
Reconciliation:			
Elimination of intersegment receivables			(96,730)
Elimination of an intersegment entrusted loan			(100,133)
Corporate and other unallocated assets			2,057
Total assets			1,589,309
Segment liabilities	430,245	486,573	916,818
Reconciliation:			
Elimination of intersegment payables			(96,730)
Elimination of an intersegment entrusted loan			(100,133)
Total liabilities			719,955

4. OPERATING SEGMENT INFORMATION (continued)

	Sales of natural gas and other related products RMB'000	Gas pipeline connection and construction RMB'000	Eliminations RMB'000	Total RMB'000
Year ended 31 December 2009				
Other segment information:				
Share of profit of an associate	4,764	–	–	4,764
Impairment losses recognised/ (reversed) in profit or loss	10,957	(169)	–	10,788
Depreciation and amortisation	44,801	2,310	(1,501)	45,610
Interests in an associate	32,863	–	–	32,863
Capital expenditure	234,547	2,066	(5,848)	230,765

4. OPERATING SEGMENT INFORMATION (continued)

	Sales of natural gas and other related products RMB'000	Gas pipeline connection and construction RMB'000	Total RMB'000
Year ended 31 December 2008			
Segment revenue:			
Sales to external customers	766,525	262,321	1,028,846
Intersegment sales	7,635	23,738	31,373
	774,160	286,059	1,060,219
Reconciliation:			
Elimination of intersegment sales			(31,373)
Revenue			1,028,846
Segment results	60,709	209,640	270,349
Reconciliation:			
Elimination of intersegment results			(491)
Bank interest income			4,498
Unallocated gains			1,576
Unallocated corporate expenses			(72,236)
Finance costs			–
Profit before tax			203,696
Segment assets	1,200,501	346,554	1,547,055
Reconciliation:			
Elimination of intersegment receivables			(73,660)
Elimination of an intersegment entrusted loan			(100,208)
Corporate and other unallocated assets			1,738
Total assets			1,374,925
Segment liabilities	373,653	390,276	763,929
Reconciliation:			
Elimination of intersegment payables			(73,660)
Elimination of an intersegment entrusted loan			(100,207)
Total liabilities			590,062

4. OPERATING SEGMENT INFORMATION (continued)

	Sales of natural gas and other related products RMB'000	Gas pipeline connection and construction RMB'000	Eliminations RMB'000	Total RMB'000
Year ended 31 December 2008				
Other segment information:				
Impairment losses recognised in profit or loss	520	460	–	980
Depreciation and amortisation	38,732	2,305	(1,349)	39,688
Interests in an associate	32,025	–	–	32,025
Capital expenditure	122,773	415	(2,381)	120,807

5. REVENUE AND OTHER INCOME AND GAINS

	Note	2009 RMB'000	2008 RMB'000
Revenue			
Natural gas		**930,359**	747,413
Gas appliances		**13,685**	11,348
Pressure control equipments		**259**	1,530
Gas pipelines:			
Connection and construction		**302,012**	271,339
Provision of renovation work		**8,949**	7,008
Others		**194**	86
		1,255,458	1,038,724
Less: Business tax and government surcharges		**(11,038)**	(9,878)
		1,244,420	1,028,846
Other income and gains			
Bank interest income		**4,013**	4,498
Rental income		**580**	487
Government grants	(a)	**606**	600
Sales of construction materials		**404**	–
Others		**843**	602
		6,446	6,187
		1,250,866	1,035,033

Note:

(a) The Company received government grants in respect of its contribution and development in Zhengzhou City. There are no unfulfilled conditions or contingencies attaching to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold		**754,245**	626,094
Depreciation	14	**43,322**	38,013
Amortisation of prepaid land lease payments	15	**2,288**	1,675
Minimum lease payments under operating leases:			
Land and buildings		**9,941**	9,955
Equipment		**2,901**	5,272
Trademarks		**195**	780
		13,037	16,007
Auditors' remuneration		**2,468**	4,853
Employee benefits expense (including directors' and supervisors' remuneration (note 7)):			
Wages and salaries		**100,397**	79,697
Pension scheme contributions (defined contribution scheme)		**11,451**	8,925
Accommodation benefits (defined contribution scheme)		**6,552**	5,477
		118,400	94,099
Foreign exchange differences, net		**118**	(272)
Reverse/impairment of trade receivables	21	**(45)**	542
Write-down of inventories to net realisable value	19	**925**	438
Impairment of items of property, plant and equipment		**3,725**	–
Write-down of an item of construction in progress		**6,183**	–
Bank interest income	5	**(4,013)**	(4,498)
Interest expense		**1,662**	–
Loss on disposal of items of property, plant and equipment		**–**	57

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009	2008
	RMB'000	RMB'000
Fees	**231**	220
Other emoluments:		
Salaries, allowances and benefits in kind	**614**	664
Performance related bonuses	**540**	400
Pension scheme contributions	**15**	12
	1,169	1,076
	1,400	1,296

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009	2008
	RMB'000	RMB'000
Mr. Zhang Yichun	**13**	50
Mr. Liu Jianwen	**–**	50
Mr. Yu Jingsong	**45**	–
Mr. Zhang Jianqing	**45**	–
Ms. Yu Shulian	**13**	50
Ms. Wang Xiuli	**45**	–
Mr. Wong Ping	**70**	70
	231	220

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009					
Executive directors:					
Mr. Yan Guoqi	**–**	**179**	**255**	**6**	**440**
Mr. Li Jinlu	**–**	**198**	**146**	**5**	**349**
Mr. Li Hongwei	**–**	**179**	**139**	**4**	**322**
	–	**556**	**540**	**15**	**1,111**
Non-executive directors:					
Mr. Song Jinhui	**–**	**–**	**–**	**–**	**–**
Mr. Zhang Wushan	**–**	**–**	**–**	**–**	**–**
Mr. Hao Ganjun	**–**	**–**	**–**	**–**	**–**
Mr. Ding Ping	**–**	**–**	**–**	**–**	**–**
Mr. Liu Jianwen	**–**	**58**	**–**	**–**	**58**
	–	**58**	**–**	**–**	**58**
	–	**614**	**540**	**15**	**1,169**
2008					
Executive directors:					
Mr. Yan Guoqi	–	294	187	6	487
Mr. Li Jinlu	–	196	106	5	307
Mr. Li Hongwei	–	174	107	1	282
	–	664	400	12	1,076
Non-executive directors:					
Mr. Song Jinhui	–	–	–	–	–
Mr. Zhang Wushan	–	–	–	–	–
Mr. Hao Ganjun	–	–	–	–	–
Mr. Ding Ping	–	–	–	–	–
	–	–	–	–	–
	–	664	400	12	1,076

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors and independent supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009					
Supervisors:					
Ms. Bao Hongwei	**–**	**185**	**143**	**5**	**333**
Mr. Zhao Ruibao	**–**	**126**	**99**	**5**	**230**
Ms. Wang Xiaohua	**–**	**78**	**69**	**5**	**152**
Ms. Niu Minghua	**–**	**–**	**–**	**–**	**–**
Mr. Chen Kun	**–**	**–**	**–**	**–**	**–**
	–	**389**	**311**	**15**	**715**
Independent supervisors:					
Mr. Cai Yuming	**43**	**–**	**–**	**–**	**43**
Mr. Yang Guirong	**43**	**–**	**–**	**–**	**43**
Mr. Xie Songwang	**15**	**–**	**–**	**–**	**15**
Mr. Zhang Lixing	**15**	**–**	**–**	**–**	**15**
	116	**–**	**–**	**–**	**116**
	116	**389**	**311**	**15**	**831**
2008					
Supervisors:					
Ms. Bao Hongwei	–	177	105	5	287
Mr. Zhao Ruibao	–	126	73	5	204
Ms. Wang Xiaohua	–	70	54	5	129
Ms. Niu Minghua	–	–	–	–	–
Mr. Chen Kun	–	–	–	–	–
	–	373	232	15	620
Independent supervisors:					
Mr. Cai Yuming	50	–	–	–	50
Mr. Yang Guirong	50	–	–	–	50
	100	–	–	–	100
	100	373	232	15	720

7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(c) Supervisors and independent supervisors (continued)

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

The remuneration package of each director or supervisor of the Company is determined with reference to his duties and responsibilities in the Company. As at the date of this report, the Company has not adopted any share option scheme as an incentive plan.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2008: three) directors and supervisors. They were Yan Guoqi, Li Jinlu, Li Hongwei and Bao Hongwei details of whose remuneration are set out in note 7 above. Details of the remunerations of the remaining one (2008: two) non-director, highest paid employee for the year are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Basic salaries and other benefits	**573**	746
Bonuses paid and payable	**84**	175
Retirement benefits	**12**	17
	669	938

The non-director, highest paid employee's remuneration fell within the range of nil to HK$1 million.

During the year ended 31 December 2009, no emoluments were paid by the Group to the directors or the non-director, highest paid employee as an inducement to join or upon joining the Group, or as a compensation for loss of office.

9. INCOME TAX

In accordance with the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, the provision for PRC current income tax has been based on a statutory rate of 25% of the assessable profit of the Group since 1 January 2008.

9. INCOME TAX (continued)

Major components of the Group's income tax expense for the year ended 31 December 2009 are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Current		
Charge for the year	**64,958**	52,988
Underprovision in prior years	**240**	96
Deferred (note 18)	**(1,929)**	(1,556)
Total tax charge for the year	**63,269**	51,528

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2009	2008
	RMB'000	RMB'000
Profit before tax	**243,728**	203,696
Tax at the applicable tax rate of 25% (2008: 25%)	**60,932**	50,924
Tax effect of:		
Adjustments in respect of current tax of previous periods	**240**	96
Profit attributable to an associate	**(1,191)**	–
Expenses not deductible for tax	**2,216**	361
Tax losses utilised from previous years	**305**	–
Unrealised profits	**767**	147
Tax charge at the Group's effective tax rate	**63,269**	51,528

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of RMB203,491,000 (2008: RMB130,087,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

(a) Final

	2009 **RMB'000**	2008 RMB'000
Proposed final – RMB0.1626 per ordinary share (2008: RMB0.104, after Share Consolidation, as defined in Note 29 below)	**20,349**	13,016

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM"). Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2009.

(b) Special dividend

	2009 **RMB'000**	2008 RMB'000
Proposed special dividend – per ordinary share nil (2008: RMB0.8, after Share Consolidation)	**–**	100,120

Pursuant to the AGM and class meeting of holders of H shares and domestic shares held on 21 May 2009, the board of directors declared the special dividend from the audited accumulated undistributed profits of the Company as at 31 December 2007 to all shareholders prior to the Company for allotment, issue and dealing with the A Shares ("A Share Issue"). The special dividend was RMB0.8 per share (after Share Consolidation) of the Company, amounting to RMB100.12 million in aggregate. The Company's accumulated undistributed profits, after the distribution of the special dividend and the proposed final dividend for the year ended 31 December 2008, from 1 January 2009 to the day prior to completion of the A Share Issue shall be shared by all new and existing shareholders of the Company after the A Share Issue.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculation of basic earnings per share is based on:

	2009	2008
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	**178,451**	151,216

	Number of shares	
	2009	2008
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year*	**125,150**	125,150

* Represents the number of shares after the Share Consolidation which sets out in note 29 below.

13. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

As stipulated by PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount according to the geographical area of their last employment on their retirement date. As the Company and its subsidiaries are operating in Zhengzhou, they are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 21% (2008: 21%) of the previous year's average basic salaries of the employees that are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiaries are required to make contributions which are at 12% (2008: 12%) of the previous year's basic salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiaries except for these contributions to the accommodation fund.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2009	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2009:	**51,116**	**260,924**	**428,953**	**17,385**	**36,813**	**7,349**	**982**	**72,779**	**876,301**
Additions	**345**	**3,699**	**113,657**	**1,520**	**7,621**	**193**	**436**	**101,170**	**228,641**
Transferred from construction in progress	**830**	**13,671**	**43,784**	**147**	**–**	**68**	**1,500**	**(60,000)**	**–**
Write-off	**(358)**	**(5,125)**	**–**	**(1,010)**	**–**	**–**	**–**	**(6,183)**	**(12,676)**
At 31 December 2009	**51,933**	**273,169**	**586,394**	**18,042**	**44,434**	**7,610**	**2,918**	**107,766**	**1,092,266**
Accumulated depreciation and provision for impairment losses									
At 1 January 2009:	**5,742**	**70,218**	**106,287**	**7,255**	**16,177**	**4,290**	**217**	**–**	**210,186**
Depreciation charge for the year	**1,990**	**12,780**	**20,796**	**1,874**	**4,225**	**1,125**	**532**	**–**	**43,322**
Impairment losses provided for the year	**–**	**3,591**	**–**	**134**	**–**	**–**	**–**	**–**	**3,725**
Write-off	**(358)**	**(5,125)**	**–**	**(1,010)**	**–**	**–**	**–**	**–**	**(6,493)**
At 31 December 2009	**7,374**	**81,464**	**127,083**	**8,253**	**20,402**	**5,415**	**749**	**–**	**250,740**
Net carrying amount:									
At 31 December 2009	**44,559**	**191,705**	**459,311**	**9,789**	**24,032**	**2,195**	**2,169**	**107,766**	**841,526**
At 31 December 2008	**45,374**	**190,706**	**322,666**	**10,130**	**20,636**	**3,059**	**765**	**72,779**	**666,115**

31 December 2008	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2008:	48,912	253,201	403,195	16,083	33,931	6,440	532	42,659	804,953
Additions	1,480	1,170	479	1,061	3,245	140	450	63,686	71,711
Transferred from construction in progress	724	6,553	25,279	241	–	769	–	(33,566)	–
Disposals	–	–	–	–	(363)	–	–	–	(363)
At 31 December 2008	51,116	260,924	428,953	17,385	36,813	7,349	982	72,779	876,301
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	3,786	57,694	89,431	5,408	12,929	3,169	59	–	172,476
Depreciation charge for the year	1,956	12,524	16,856	1,847	3,551	1,121	158	–	38,013
Disposals	–	–	–	–	(303)	–	–	–	(303)
At 31 December 2008	5,742	70,218	106,287	7,255	16,177	4,290	217	–	210,186
Net carrying amount:									
At 31 December 2008	45,374	190,706	322,666	10,130	20,636	3,059	765	72,779	666,115
At 31 December 2007	45,126	195,507	313,764	10,675	21,002	3,271	473	42,659	632,477

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

31 December 2009	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2009:	45,628	240,559	448,727	16,065	29,521	7,321	982	73,694	862,497
Additions	289	1,786	113,658	1,309	6,833	194	436	94,749	219,254
Transferred from construction in progress	830	13,630	47,911	147	–	68	1,500	(64,086)	–
Write-off	(358)	(4,739)	–	(916)	–	–	–	(6,183)	(12,196)
At 31 December 2009	46,389	251,236	610,296	16,605	36,354	7,583	2,918	98,174	1,069,555
Accumulated depreciation and provision for impairment losses									
At 1 January 2009:	5,311	64,482	109,512	6,603	11,393	4,264	217	–	201,782
Depreciation charge for the year	1,775	11,574	21,720	1,715	3,460	1,124	532	–	41,900
Impairment losses provided for the year	–	3,378	–	123	–	–	–	–	3,501
Write-off	(358)	(4,739)	–	(916)	–	–	–	–	(6,013)
At 31 December 2009	6,728	74,695	131,232	7,525	14,853	5,388	749	–	241,170
Net carrying amount:									
At 31 December 2009	39,661	176,541	479,064	9,080	21,501	2,195	2,169	98,174	828,385
At 31 December 2008	40,317	176,077	339,215	9,462	18,128	3,057	765	73,694	660,715

31 December 2008	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2008:	43,671	233,008	422,472	14,925	26,639	6,412	532	43,771	791,430
Additions	1,233	998	–	899	3,245	140	450	64,465	71,430
Transferred from construction in progress	724	6,553	26,255	241	–	769	–	(34,542)	–
Disposals	–	–	–	–	(363)	–	–	–	(363)
At 31 December 2008	45,628	240,559	448,727	16,065	29,521	7,321	982	73,694	862,497
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	3,559	53,176	91,834	4,894	8,900	3,144	59	–	165,566
Depreciation charge for the year	1,752	11,306	17,678	1,709	2,791	1,120	158	–	36,514
Disposals	–	–	–	–	(298)	–	–	–	(298)
At 31 December 2008	5,311	64,482	109,512	6,603	11,393	4,264	217	–	201,782
Net carrying amount:									
At 31 December 2008	40,317	176,077	339,215	9,462	18,128	3,057	765	73,694	660,715
At 31 December 2007	40,112	179,832	330,638	10,031	17,739	3,268	473	43,771	625,864

15. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**115,698**	68,277	**111,002**	63,483
Additions	**2,124**	49,096	**2,124**	49,096
Amortised during the year	**(2,288)**	(1,675)	**(2,190)**	(1,577)
Carrying amount at 31 December	**115,534**	115,698	**110,936**	111,002
Current portion included in prepayments, deposits and other receivables	**(2,950)**	(1,749)	**(2,753)**	(1,651)
Non-current portion	**112,584**	113,949	**108,183**	109,351

The prepaid land lease payments represent payments for medium term leases of land situated in Mainland China.

As at 31 December 2009, the Group was in process of applying for the land certificates with a net book values of RMB2,778,000 (2008: RMB44,981,000).

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	2008
	RMB'000	RMB'000
Unlisted investments, at cost	**84,350**	52,350

16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of registration and operations/ date of registration	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (a))	PRC/Mainland China 19 June 2002	RMB40,000,000	100	–	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. (note (b))	PRC/Mainland China 14 November 2003	RMB5,000,000	51	–	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. (note (c))	PRC/Mainland China 17 February 2004	RMB30,000,000	22	78	Sale of natural gas and gas appliances and construction of gas pipelines
Zhengzhou Airport District Gas Co., Ltd. (note (d))	PRC/Mainland China 24 March 2009	RMB10,000,000	100	–	Sale of natural gas and gas appliances and construction of gas pipelines
Henan Zhengran Jinxiang Vehicular Energy Co., Ltd. (note (e))	PRC/Mainland China 28 October 2009	RMB40,000,000	55	–	Development and application of vehicular energy, and the conversion and repair of gas powered cars

Notes:

(a) Zhengzhou Gas Engineering and Construction Co., Ltd. was established by the Company and the Zhengzhou Gas Group Labour Union Committee in Zhengzhou, Henan Province, the PRC, on 19 June 2002. The Zhengzhou Gas Group Labour Union Committee is a social organisation legal person established under the General Principles of the Civil Law and the Labour Union of the PRC. It is accountable to the Labour Union Member Meeting and represents the interests of all the staff members of Zhengzhou Gas Group Co., Ltd., a holding company of the Company.

On 1 July 2006, the Zhengzhou Gas Group Labour Union Committee disposed of all its shareholding in Zhengzhou Gas Engineering and Construction Co., Ltd. to the Company.

(b) Zhengzhou Zhengran Pressure Control Technology Co., Ltd. was established by the Company and 19 individual shareholders in Zhengzhou, Henan Province, the PRC, on 14 November 2003. These individual shareholders are either employees of the Company or employees of the Company's holding company.

(c) Dengfeng Zhengran Gas Co., Ltd. was established by the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. on 17 February 2004.

(d) Zhengzhou Airport District Gas Co., Ltd. was established by the Company on 24 March 2009.

(e) Henan Zhengran Jinxiang Vehicular Energy Co., Ltd. was established by the Company and Zhengzhou Traffic and Transportation (Group) Co., Ltd. on 28 October 2009. Zhengzhou Traffic and Transportation (Group) Co., Ltd. and its ultimate shareholders are independent third parties and are not connected persons (as defined in the Listing Rules) of the Company.

17. INTERESTS IN AN ASSOCIATE

	Group 2009 RMB'000	Group 2008 RMB'000
Share of net assets	**29,900**	29,062
Goodwill on acquisition	**2,963**	2,963
	32,863	32,025

	Company 2009 RMB'000	Company 2008 RMB'000
Unlisted investments, at cost	**32,025**	32,025

Particulars of the associate are as follows:

Name	Particulars of registered capital owner	Place of registration	Percentage of ownership interest attributable to the Group	Principal activities
Pingdingshan Gas Co., Ltd.	RMB95,590,600	PRC	27%	Sale of natural gas, LPG and gas appliances, construction of gas pipelines and the provision of renovation services of gas pipelines.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	2009 RMB'000	2008 RMB'000
Assets	**457,948**	446,562
Liabilities	**336,528**	339,348
Revenue	**206,995**	203,207
Profit	**17,643**	10,905

On 6 March 2008, the Company entered into an equity transfer agreement with Pingdingshan State Assets Supervision and Administrative Commission to acquire a 27% equity interest in Pingdingshan Gas Co., Ltd. at an aggregate cash consideration of approximately RMB32,025,000 (inclusive of RMB1,525,000 transaction cost).

18. DEFERRED TAX ASSETS

Group

	Temporary differences arising from				
	Provision for impairment losses RMB'000	**Accrued expenses RMB'000**	**Unrealised intergroup profit RMB'000**	**Advances from customers aged more than one year and others RMB'000**	**Total RMB'000**
At 1 January 2009	**1,125**	**4,040**	**1,737**	**496**	**7,398**
Deferred tax credited/(charged) to profit or loss during the year (note 9)	**(310)**	**1,655**	**320**	**264**	**1,929**
At 31 December 2009	**815**	**5,695**	**2,057**	**760**	**9,327**

	Temporary differences arising from				
	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Unrealised intergroup profit RMB'000	Advances from customers aged more than one year and others RMB'000	Total RMB'000
At 1 January 2008	1,001	3,025	1,624	192	5,842
Deferred tax credited to profit or loss during the year (note 9)	124	1,015	113	304	1,556
At 31 December 2008	1,125	4,040	1,737	496	7,398

The Group has tax losses arising in Mainland China of RMB1,220,000 (2008: RMB nil) that will expire in five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that just established during 2009 and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

18. DEFERRED TAX ASSETS (continued)

Company

	Temporary differences arising from			
	Provision for impairment losses RMB'000	**Accrued expenses RMB'000**	**Advances from customers aged more than one year and others RMB'000**	**Total RMB'000**
At 1 January 2009	**1,010**	**3,601**	**496**	**5,107**
Deferred tax credited/(charged) to profit or loss during the year	**(212)**	**1,506**	**263**	**1,557**
At 31 December 2009	**798**	**5,107**	**759**	**6,664**

	Temporary differences arising from			
	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Advances from customers aged more than one year and others RMB'000	Total RMB'000
At 1 January 2008	1,001	3,025	192	4,218
Deferred tax credited to profit or loss during the year	9	576	304	889
At 31 December 2008	1,010	3,601	496	5,107

19. INVENTORIES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Natural gas	**3,198**	4,947	**3,198**	4,947
Construction materials and pressure control equipment	**15,169**	10,513	**3,487**	3,014
	18,367	15,460	**6,685**	7,961

The amounts of the write-down of inventories recognised as expenses for the Group and the Company are RMB925,000 (2008: RMB438,000) and RMB925,000 (2008: RMB438,000), respectively.

20. CONSTRUCTION WORK IN PROGRESS/ADVANCE PAYMENTS RECEIVED

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Construction work in progress				
Construction costs incurred to date	**933**	954	**–**	–
Advance payments received				
Progress payments received	**519,512**	402,206	**269,377**	217,274
Less: Construction costs incurred to date	**(72,010)**	(45,738)	**–**	–
	447,502	356,468	**269,377**	217,274

As at 31 December 2009, retention held by customers for construction work included in trade receivables amounted to approximately RMB322,000 (2008: RMB262,000).

21. TRADE AND NOTES RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**142,374**	105,035	**141,504**	103,225
Notes receivables	**20,773**	2,200	**20,773**	2,200
Impairment	**(1,768)**	(2,309)	**(1,701)**	(1,849)
	161,379	104,926	**160,576**	103,576

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and notes receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and notes receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**138,974**	98,704	**138,502**	98,014
1 to 3 months	**10,624**	2,813	**10,615**	2,803
3 to 6 months	**11,121**	2,398	**11,054**	2,361
6 to 12 months	**387**	478	**387**	182
Over 12 months	**273**	533	**18**	216
	161,379	104,926	**160,576**	103,576

21. TRADE AND NOTES RECEIVABLES (continued)

The movements in the provision for impairment of trade receivables are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**2,309**	1,767	**1,849**	1,767
Impairment losses recognised (note 6)	**(45)**	542	**348**	82
Amount written off as uncollectible	**(496)**	–	**(496)**	–
At 31 December	**1,768**	2,309	**1,701**	1,849

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,045,000 (2008: RMB1,296,000) with a carrying amount of RMB1,045,000 (2008: RMB1,296,000). The individually impaired trade receivables relate to customers that are in financial difficulties and the receivables is not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and notes receivables is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**157,376**	101,972	**156,828**	101,100
Less than 1 month past due	**2,763**	1,800	**2,763**	1,759
1 to 3 months past due	**694**	217	**669**	217
3 to 6 months past due	**139**	207	**139**	145
6 to 12 moths past due	**370**	260	**171**	228
Over 12 months past due	**37**	470	**6**	127
	161,379	104,926	**160,576**	103,576

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**59,888**	36,833	**44,288**	30,292
Deposits and other receivables	**3,846**	3,703	**2,104**	2,609
	63,734	40,536	**46,392**	32,901

None of the above assets is impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. CASH AND CASH EQUIVALENTS, RESTRICTED CASH DEPOSITS AND FIXED DEPOSITS HELD AT BANKS WITH MATURITY OVER THREE MONTHS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**318,182**	393,419	**187,686**	256,235
Time deposits	**30,000**	–	**–**	–
	348,182	393,419	**187,686**	256,235
Less: Fixed deposits held at banks with maturity over three months	**(30,000)**	–	**–**	–
Restricted cash deposits	**(26,450)**	(25,250)	**(26,450)**	(25,250)
Cash and cash equivalents	**291,732**	368,169	**161,236**	230,985

The Group has established restricted cash deposits in a bank to secure natural gas supplies from its gas supplier.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted cash deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**61,767**	36,732	**43,373**	21,797
1 to 3 months	**12,198**	12,034	**6,782**	5,067
3 to 6 months	**4,380**	2,498	**3,153**	1,234
6 to 12 months	**2,175**	1,795	**1,802**	1,319
Over 12 months	**2,997**	3,115	**2,065**	1,988
	83,517	56,174	**57,175**	31,405

The above balances are unsecured, non-interest-bearing and are normally settled on terms of 7 to 365 days.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**48,190**	55,594	**47,875**	55,219
Other payables	**86,815**	45,601	**80,337**	40,704
Accruals	**1,055**	1,470	**1,038**	1,470
Payroll payables	**27,297**	20,929	**24,813**	19,171
	163,357	123,594	**154,063**	116,564

Accrued liabilities and other payables are unsecured, non-interest-bearing and have no fixed terms of repayment.

26. INTEREST-BEARING BANK BORROWINGS

Group and Company

	2009			2008		
	Contractual interest rate (%)	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	–	–	–	4.8-5.0	2009	40,000

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	–	40,000	–	40,000

The Group's banking facilities amounting to RMB220,000,000 (2008: RMB420,000,000), of which nil (2008: RMB40,000,000) has been utilised as at the end of the reporting period.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values.

27. DUE FROM/TO SUBSIDIARIES

	Notes	2009 RMB'000	2008 RMB'000
Due from a subsidiary:			
Zhengzhou Airport district Gas Co., Ltd.		**38**	–
Due to subsidiaries:			
Zhengzhou Gas Engineering and Construction Co., Ltd.			
– Entrusted loans	(a)	**100,000**	100,000
– Accrued interest on entrusted loans		**133**	208
– Construction fee payables	(b)	**91,396**	71,805
		191,529	172,013
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		**220**	172
		191,749	172,185

Notes:

(a) Entrusted loans represent borrowings from Zhengzhou Gas Engineering and Construction Co., Ltd. via a financial institution. The unsecured entrusted loans bear interest at a rate of 4.374% (2008: 6.804%) per annum and are repayable on 8 June 2010.

(b) The balances arise from the provision of construction services by the subsidiary to the Company. These balances are unsecured, interest-free and have no fixed terms of repayment.

28. DUE FROM FELLOW SUBSIDIARIES/DUE TO A RELATED COMPANY

The amounts due from fellow subsidiaries/due to a relate company are unsecured, interest-free and have no fixed terms of repayment.

29. ISSUED CAPITAL

	Group and Company			
	2009		2008	
	Number of shares '000	**Nominal value RMB'000**	Number of shares '000	Nominal value RMB'000
Registered	**125,150**	**125,150**	1,251,500	125,150

	2009		2008	
	Number of shares '000	**Nominal value RMB'000**	Number of shares '000	Nominal value RMB'000
Issued and fully paid:				
Domestic Shares of RMB1.00* each (2008: RMB0.10 each)	**70,084**	**70,084**	700,840	70,084
H shares of RMB1.00* each (2008: RMB0.10 each)	**55,066**	**55,066**	550,660	55,066
	125,150	**125,150**	1,251,500	125,150

* Pursuant to the approval by the shareholders of the Company at the annual general meeting and class meeting of the holders of H shares and domestic shares of the Company dated 21 May 2009, the board of directors is authorised to effect the following terms: every ten issued ordinary shares of RMB0.10 each in the share capital of the Company be consolidated into one share of RMB1.00 each (the "Consolidated Share"), such Consolidated Shares shall rank pari passu in all respects with each other (the "Share Consolidation").

The domestic shares and H shares are both ordinary shares in the issued capital of the Company. The domestic shares are not currently listed on any stock exchange. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the domestic shares are to be paid by the Company in RMB.

Save for the foregoing and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the domestic shares and the H shares rank pari passu with each other in all aspects.

There was no movement of the Company's ordinary issued capital during the year.

30. RESERVES

(a) Group

(i) Statutory Surplus Reserve (the "SSR")

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, each of the Company and its subsidiaries is required to allocate 10% of its profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the SSR until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(ii) General Surplus Reserve (the "GSR")

In addition to the statutory surplus reserve which is required by the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the owners of the Company resolved on 17 March 2009 to transfer approximately RMB13,009,000 from the Company's retained earnings as at 31 December 2008 to the GSR.

(iii) Retained profits

As set out in note 11 to the financial statements, for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC GAAP and those under IFRSs. Since 2007, profits under IFRS are the same as those under PRC GAAP.

In accordance with the Company Law of the PRC, profits after tax can be distributed as dividends after the transfers to the SSR as set out above.

As at 31 December 2009, the Company's reserves available for distribution were approximately RMB367,356,000 (2008: RMB310,443,000), of which approximately RMB20,349,000 has been proposed as a final dividend and for the year and approximately RMB20,433,000 has been proposed to be transferred to the GSR.

30. RESERVES (continued)

(b) Company

	Notes	Share premium account RMB'000	Statutory surplus reserve RMB'000	General surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2008		101,026	79,444	40,411	233,777	454,658
Profit for the year		–	–	–	130,087	130,087
Final 2007 dividend		–	–	–	(30,286)	(30,286)
Transfer from retained profits		–	13,009	10,126	(23,135)	–
At 31 December 2008		101,026	92,453	50,537	310,443	554,459
Profit for the year		–	–	–	203,491	203,491
Final 2008 dividend	11	–	–	–	(13,016)	(13,016)
Special dividends	11	–	–	–	(100,120)	(100,120)
Transfer from retained profits		–	20,433	13,009	(33,442)	–
As 31 December 2009		101,026	112,886	63,546	367,356	644,814

31. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of land, buildings and pipeline equipment falling due as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**9,371**	12,940	**8,813**	12,403
In the second to fifth years, inclusive	**5,460**	12,934	**5,460**	12,595
Over five years	**6,776**	8,132	**6,776**	8,132
	21,607	34,006	**21,049**	33,130

31. OPERATING LEASE ARRANGEMENTS (continued)

The Group has entered into commercial leases on certain of land, buildings and pipeline equipment under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to thirteen years, and those for pipeline equipment are for terms of about five years. There are no purchase options and escalation clauses included in the contracts. The Group is given priority in renewing the leases of land, buildings and pipeline equipment upon the expiry of the lease terms once every year on the terms and conditions agreed by both parties. There are no restrictions placed upon the Group when entering into these leases.

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group and the Company had the following capital commitments at the end of the reporting period:

	Group		**Company**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital commitments				
In respect of items of property, plant and equipment:				
Contracted, but not provided for	**10,675**	123,916	**9,320**	123,916
Authorised, but not contracted for	**123,141**	522,930	**122,091**	522,726
	133,816	646,846	**131,411**	646,642

33. CONTINGENCIES

At the end of the reporting period, neither the Group nor the Company had any significant contingencies.

34. RELATED PARTY TRANSACTIONS

(i) Transactions with the Group's and Company's fellow subsidiaries/subsidiaries and the holding company

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group and the Company had the following significant transactions with their related parties:

Name of related parties	Nature of transactions	2009 RMB'000	2008 RMB'000
Group			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease payments of equipment, land and buildings to the related company (note (c))	**10,274**	10,196
	Trademark fees (note (d))	**195**	780
Zhengzhou Jixiang Property Management Co., Ltd. (note (b))	Provision of property management services by the related company (note (g))	**238**	–
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchase of land and buildings (note (e))	**–**	7,354
NanYang Zhengran Natural Gas Co., Ltd. (note (b))	Sale of goods to the related company (note (g))	**278**	136
Zhengzhou Zhengran Gas Design and Development Co., Ltd. (note (b))	Provision of design, planning and feasibility study services by the related company (note (f))	**3,476**	–

34. RELATED PARTY TRANSACTIONS (continued)

(i) Transactions with the Group's and Company's fellow subsidiaries/subsidiaries and the holding company (continued)

Name of related parties	Nature of transactions	2009 RMB'000	2008 RMB'000
Company			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease payments of equipment, land and buildings to the related company (note (c))	**9,736**	9,659
	Trademark fees (note (d))	**195**	780
Zhengzhou Jixiang Property Management Co., Ltd. (note (b))	Provision of property management services by the related company (note (g))	**199**	–
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchase of land and buildings (note (e))	**–**	7,354
Zhengzhou Zhengran Gas Design and Development Co., Ltd. (note (b))	Provision of design, planning and feasibility study services by the related company (note (f))	**3,032**	–

34. RELATED PARTY TRANSACTIONS (continued)

(i) Transactions with the Group's and Company's fellow subsidiaries/subsidiaries and the holding company (continued)

Notes:

(a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

(b) Zhengzhou Jixiang Property Management Co., Ltd, and NanYang Zhengran Natural Gas Co., Ltd. are fellow subsidiaries of the Company. Whereas, Zhengzhou Zhengran Gas Design and Development Co., Ltd is related to the Company by way of common key management personnel in holding company of the Company and Zhengzhou Zhengran Gas Design and Development Co., Ltd.

(c) In accordance with the property lease agreements, the land lease agreements and the equipment lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain vehicle, land and buildings to the Company for its office and operational uses. In the opinion of the directors, these transactions were determined by agreement of parties based on the valuation of an independent appraiser.

(d) On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "Trademark Licence Agreement"). Pursuant to the Trademark Licence Agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use these trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

These transactions were carried out in accordance with the terms of the underlying agreements.

On 28 April 2009, the Company and Zhengzhou Gas Group Co., Ltd. entered into a transfer agreement in connection with the trademark licence. Pursuant to the transfer agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Company the trademark licence without consideration from 1 April 2009. The trademark licences are to be expired in July 2010 and March 2012, respectively.

(e) On 30 November 2007, the Company entered into a property purchase agreement with Zhengzhou Gas Group Co., Ltd. to acquire a parcel of land situated at the junction of Juyuan Road East and Hongtu Road South, at an aggregate consideration of RMB6,690,000 and certain buildings erected there at a consideration of RMB664,000.

As at 31 December 2008, the acquisition of the parcel of land had been completed. In the opinion of the directors, these transactions were carried out based on normal commercial terms and the transacted prices were based on the valuation of independent appraiser.

(f) In July 2009, the Company and Zhengzhou Airport District Gas Co., Ltd. entered into four designing service agreements with Zhengzhou Zhengran Gas Design and Development Co., Ltd. According to these agreements, Zhengzhou Zhengran Gas Design and Development Co., Ltd. provided design, planning and feasibility study services in relation to the construction of main pipelines and a new gas station in Zhengzhou city.

The transactions were conducted by both parties based on negotiation by reference to market price.

(g) The transactions were conducted by both parties based on negotiation by reference to market price.

34. RELATED PARTY TRANSACTIONS (continued)

(ii) Compensation of key management personnel of the Group

	2009 RMB'000	2008 RMB'000
Short term employee benefits	**5,349**	4,570
Retirement benefits	**99**	90
Total compensation paid to key management personnel	**5,448**	4,660

Further details of the directors' remuneration are included in note 7 to the financial statements.

(iii) Transactions with other State-Owned Enterprises in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-Owned Enterprises"). During 2009 and 2008, the Group had transactions with State-Owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

The directors consider that the transactions with other State-Owned Enterprises are conducted in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-Owned Enterprises are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-Owned enterprises. The directors have confirmed that these transactions are carried out on terms similar to those that would be entered into with non-state-owned Enterprises and have been reflected in the financial statements. The directors are of the opinion that the transactions with other State-Owned Enterprises are fair and reasonable.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Group

Financial assets

	Notes	**2009 Loans and receivables RMB'000**	2008 Loans and receivables RMB'000
Cash and cash equivalents	23	**291,732**	368,169
Fixed deposits held at banks with maturity over three months	23	**30,000**	–
Trade and notes receivables	21	**161,379**	104,926
Due from fellow subsidiaries	28	**414**	143
Financial assets included in prepayments, deposits and other receivables	22	**3,846**	3,703
		487,371	476,941

Financial liabilities

	Notes	**2009 Financial liabilities at amortised cost RMB'000**	2008 Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	26	**–**	40,000
Trade payables	24	**83,517**	56,174
Due to a related company	28	**444**	–
Financial liabilities included in other payables and accruals	25	**86,815**	45,601
		170,776	141,775

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows: (continued)

Company

Financial assets

	Notes	**2009 Loans and receivables RMB'000**	2008 Loans and receivables RMB'000
Trade and notes receivables	21	**160,576**	103,576
Cash and cash equivalents	23	**161,236**	230,985
Due from a subsidiary	27	**38**	–
Due from a fellow subsidiary		**–**	7
Financial assets included in prepayments, deposits and other receivables	22	**2,104**	2,609
		323,954	337,177

Financial liabilities

	Notes	**2009 Financial liabilities at amortised cost RMB'000**	2008 Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	26	**–**	40,000
Trade payables	24	**57,175**	31,405
Due to subsidiaries	27	**191,749**	172,185
Financial liabilities included in other payables and accruals	25	**80,337**	40,704
		329,261	284,294

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities are trade payables, interest-bearing bank borrowings, amount due to related company and financial liabilities included in other payables and accruals. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and notes receivables and cash, which arise directly from its operations.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. The Group is not exposed to material interest rate risks as the interest-bearing bank borrowings of the Group are short term with fixed interest rates.

Foreign currency risk

The Group operates in Mainland China and its principal activities are conducted in RMB. Therefore, the Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an amount due from fellow subsidiaries and other receivables.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables, other receivables and cash and cash equivalents are disclosed in note 21, 22 and 23, respectively, to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2009					
	On demand	Less than 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	53,877	10,715	1,769	17,156	–	83,517
Due to a related company	–	–	–	444	–	444
Other payables	3,378	11,740	794	70,129	774	86,815
	57,255	22,455	2,563	87,729	774	170,776

	2008					
	On demand	Less than 90 days	91 to 180 days	181 to 365 days	Over 365 days	RMB'000 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	–	–	–	40,000	–	40,000
Trade payables	36,539	11,719	1,096	6,820	–	56,174
Other payables	3,755	13,245	4,084	23,760	757	45,601
	40,294	24,964	5,180	70,580	757	141,775

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Company

	2009					
	On demand RMB'000	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	RMB'000 Total RMB'000
Trade payables	**40,570**	**198**	**1,569**	**14,838**	**–**	**57,175**
Other payables	**2,151**	**8,300**	**603**	**68,809**	**474**	**80,337**
Due to subsidiaries	**–**	**–**	**–**	**100,536**	**91,213**	**191,749**
	42,721	**8,498**	**2,172**	**184,183**	**91,687**	**329,261**

	2008					
	On demand RMB'000	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	RMB'000 Total RMB'000
Interest-bearing bank borrowings	–	–	–	40,000	–	40,000
Trade payables	23,374	115	1,096	6,820	–	31,405
Other payables	1,780	10,662	4,045	23,760	457	40,704
Due to subsidiaries	–	100,000	–	595	71,590	172,185
	25,154	110,777	5,141	71,175	72,047	284,294

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The capital structure of the Group comprised share capital and reserves. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008. As at 31 December 2009 and 2008, the details of the capital structure of the Group are as follows:

	2009	2008
	RMB'000	RMB'000
Issued capital	**125,150**	125,150
Reserves	**721,115**	655,800
Total capital	**846,265**	780,950

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio at around or below 30%. Net debt includes interest-bearing bank borrowings, trade and other payables, accruals, advance payments received, an amount due to a related company, less cash and cash equivalents and fixed deposits held at banks with maturity over three months. Capital includes issued capital and reserves. The gearing ratios as at the ends of reporting periods were as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Interest-bearing bank borrowings	**–**	40,000
Trade payables	**83,517**	56,174
Other payables and accruals	**163,357**	123,594
Advance payments received	**447,502**	356,468
Due to a related company	**444**	–
Less: Cash and cash equivalents	**(291,732)**	(368,169)
Fixed deposits held at banks with maturity over three months	**(30,000)**	–
Net debt	**373,088**	208,067
Issued capital	**125,150**	125,150
Reserves	**721,115**	655,800
Capital	**846,265**	780,950
Capital and net debt	**1,219,353**	989,017
Gearing ratio	**31%**	21%

37. OTHER SIGNIFICANT EVENTS

(a) Pursuant to the annual general meeting and class meeting of holders of H shares and Domestic shares held on 21 May 2009, the Company proposed the A Share Issue with a maximum of 42,000,000 A Shares of RMB1.00 each on the Shenzhen Stock Exchange. The final number of A shares to be issued and the structure of the issue are subject to the approval by CSRC and other relevant authorities.

Pursuant to a resolution on 19 March 2010, the board of directors resolved to withdraw the proposed A share issue and listing application from CSRC.

(b) Pursuant to the cooperation agreement (the "Cooperation Agreement") signed between the State-owned Assets Supervision and Administration Commission ("SASAC") of Zhengzhou Municipality, who is on behalf of Zhengzhou Municipal People's Government, and China Resources Gas (China) Investment Limited ("CRGI", an independent third party), on 25 November 2009, CRGI and SASAC of Zhengzhou Municipality agreed to establish a joint venture (the "JV") which shall own 72.06% and 27.94% of the equity interests of the JV respectively. SASAC of Zhengzhou Municipality will contribute in the assets held by Zhengzhou Gas Group Co., Ltd., mainly consisting of prepaid land lease payment, buildings, plants and machineries, equity interests in Nanyang Zhengran Natural Gas Co., Ltd. and Zhengzhou Zhengran Gas Design and Development Co.,Ltd., which were valued at RMB190 million, while CRGI will contribute a foreign currency amount equivalent to RMB490 million and the total registered capital of the JV after the contributions above shall be RMB680 million. JV will acquire the other uncontributed assets held by Zhengzhou Gas Group (the "Proposed Acquisition"), which include 43.18% equity interest of the Company, buildings and electronic machineries and equipments and other assets, for a total consideration of approximately RMB430 million from SASAC of Zhengzhou Municipality. The board of directors of the Company was of the view that if the Cooperation Agreement is fully implemented, the JV may own a 43.18% equity interest of the Company and CRGI may indirectly own a 34.5% equity interest of the Company.

CRGI also agreed to contribute additional RMB270 million in cash as additional share capital in the JV. After the additional contribution, the total registered capital of the JV will be at RMB950 million. CRCI and SASC of Zhengzhou Municipality will hold 80% and 20%, respectively, in the equity interest of the JV. JV may own a 43.18% equity interest of the Company and CRGI may indirectly own a 34.5% equity interest of the Company.

As at 31 December 2009, the Cooperation Agreement has become effective and the JV has been established. The relevant filing, registration and assets delivery of the JV are still ongoing. The Proposed Acquisition has yet to be approved by SASAC of State Council and the additional capital contribution of RMB270 million has yet to be implemented.

38. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2009:

(a) Pursuant to a resolution on 19 March 2010, the board of directors resolved to withdraw the proposed A Share Issue and listing application from CSRC.

(b) Subsequent to 31 December 2009, the board of directors proposed a final dividend of RMB0.1626 per ordinary share, totalling approximately RMB20,349,000 pertaining to 2009 for payment in 2010. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming AGM. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2009.

(c) Subsequent to 31 December 2009, the board of directors proposed to transfer 10%, totalling approximately RMB20,433,000, of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31 December 2009 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2009.

39. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2010.

NOTICE IS HEREBY GIVEN that an annual general meeting (the "**AGM**") of Zhengzhou Gas Company Limited* (the "**Company**") will be held at meeting room, 2/F, 352 Longhai Road West, Zhengzhou City, Henan Province, the People's Republic of China (the "**PRC**") on Thursday, 3 June 2010 at 9:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions.

AS ORDINARY RESOLUTIONS

"**THAT**

1. the report of the board of directors of the Company (the "Board") for the year ended 31 December 2009 be approved;

2. the audited financial statements of the Company and the report of the auditor of the Company for the year ended 31 December 2009 be approved;

3. the report of the supervisors of the Company for the year ended 31 December 2009 be approved;

4. a final dividend of RMB0.1626 per ordinary share of the Company for the year ended 31 December 2009 be approved. The proposed final dividend will be payable on 25 June 2010 to shareholders of the Company whose names appear in the register of members of the Company on 5 May 2010;

5. a transfer of 10% totalling approximately RMB20,433,000 of the Company's profit after tax for the year ended 31 December 2009 to the general surplus reserve be approved;

6. the authorization of the Board to fix the remunerations of directors and supervisors of the Company be approved; and

7. the appointment of Deloitte Touche Tohmatsu as the auditor of the Company and its subsidiaries for the year 2010 and the authorization of the Board to fix their remuneration be approved.

By Order of the Board
Zhengzhou Gas Company Limited*
Yan Guoqi
Chairman

Zhengzhou, the PRC, 19 April 2010

Notes:

(A) The Company's register of H Shares members will be closed from 5 May 2010 to 3 June 2010 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares whose names appear on the register of members on 5 May 2010 will be entitled to attend and vote at the AGM. In order to qualify to attend and vote at the AGM, all instruments of transfer must be delivered to the Registrar of H Shares of the Company no later than 4:30 p.m. on 4 May 2010.

The address of the Hong Kong Branch Share Registrar and Transfer Office of H Shares is:

Computershare Hong Kong Investor Services Limited,
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East
Wanchai
Hong Kong

(B) Holders of H Shares and Domestic Shares who intend to attend the AGM must return the completed and signed reply slip to the Office for the Secretary to the Board (for holders of Domestic Shares) or to the Company's Hong Kong H Share registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares) at least twenty days before the AGM, being 14 May 2010 by hand, by post or by facsimile.

Details of the Office for the Secretary to the Board is as follows:

352 Longhai Road West
Zhengzhou City
Henan Province
People's Republic of China
Postal Code: 450006
Fax: 86-371-68890488

Details of the Hong Kong Branch Share Registrar of H Shares is as follows:

Computershare Hong Kong Investor Services Limited,
17M Floor, Hopewell Centre,
183 Queen's Road East
Wanchai
Hong Kong

(C) Holders of H Shares who has the right to attend and vote at the AGM are entitled to appoint one or more proxies (whether or not a member) to attend and vote on his behalf at the AGM.

(D) The instrument appointing a proxy must be in writing under the hand of the appointer or his attorney duly authorized in writing. In the event that such instrument is signed by an attorney of the appointer, the power of attorney authorizing that attorney to sign or other documents of authorization shall be notarized.

(E) To be valid, the form of proxy (and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointer, then together with such power of attorney or other authority) must be deposited to the Branch Share Registrar of H Shares of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 24 hours before the specified time for the holding of the AGM.

(F) Holders of Domestic Shares who has the right to attend and vote at the AGM are entitled to appoint one or more proxies (whether or not a member) to attend and vote on his behalf. Notes (C) and (D) are also applicable for holders of Domestic Shares, but to be valid, the relevant proxy forms or other authorization documents must be delivered to the Office for the Secretary to the Board at the address set out in Note (B) above 24 hours before the specified time for the holding of the AGM.

(G) If a proxy is appointed to attend the AGM on behalf of a shareholder, the proxy must produce his document and the authorization instrument with the date of issue and duly signed by the proxy or the legal representative. In the case of appointing a legal representative, such legal representative must produce his own identification document and the relevant identification document to identify his identity as the legal representative. If a shareholder appoints a company other than its legal representative to attend the AGM, such representative must produce his own identification document and the authorization instrument bearing the company chop of the legal person shareholder duly authorized by its legal representative.

(H) The AGM is expected to last for half a day and shareholders attending the AGM shall be responsible for their own travelling and accommodation expenses.

(I) Pursuant to Rule 13.39(4) of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions to be considered at the AGM will be taken by way of poll.